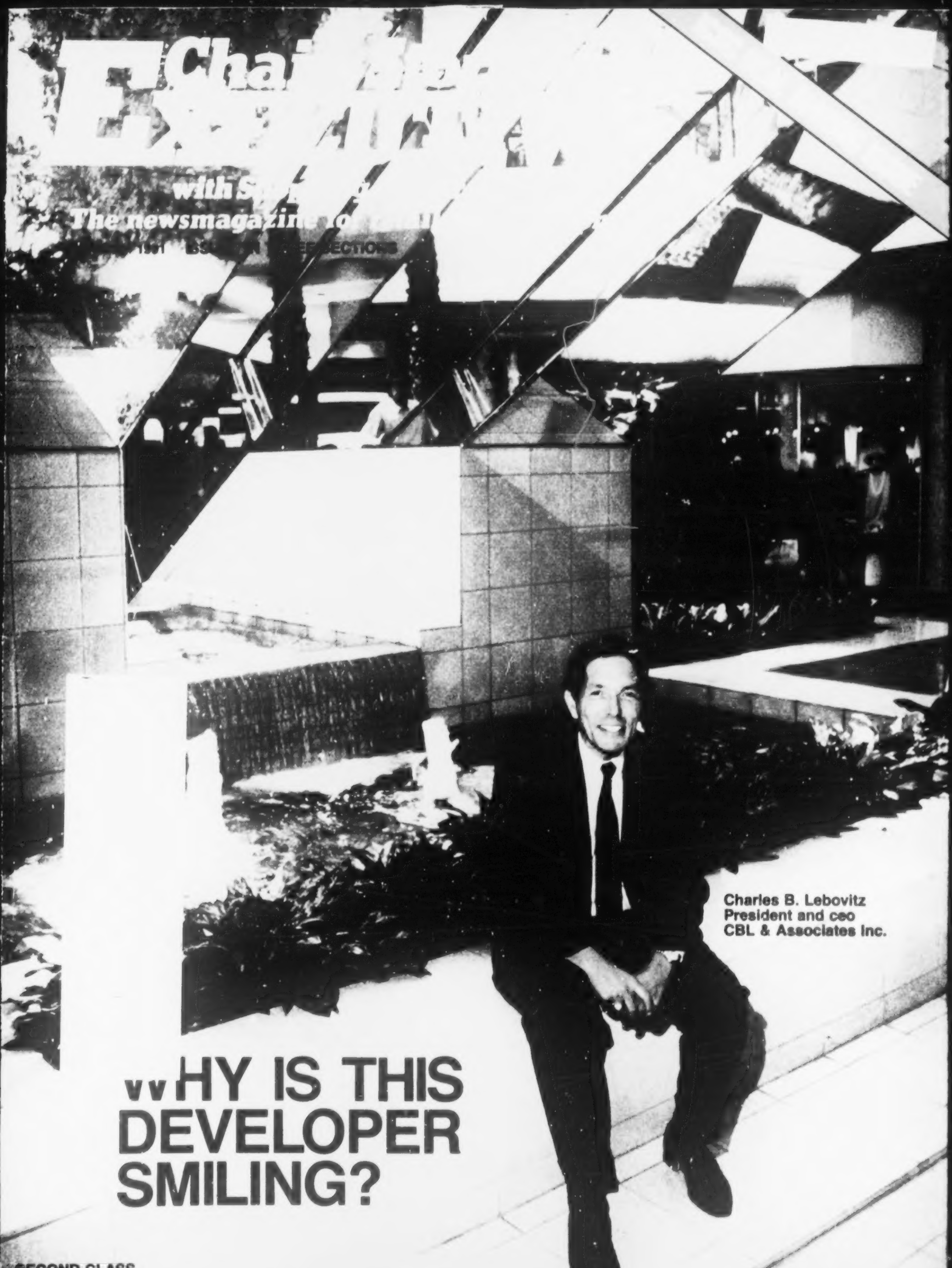

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Charles B. Lebovitz
President and ceo
CBL & Associates Inc.

WHY IS THIS DEVELOPER SMILING?

SECOND CLASS
$79.00 A YEAR (USA)

Chain Store Age Executive Vol. 67, No. 11/November 1991

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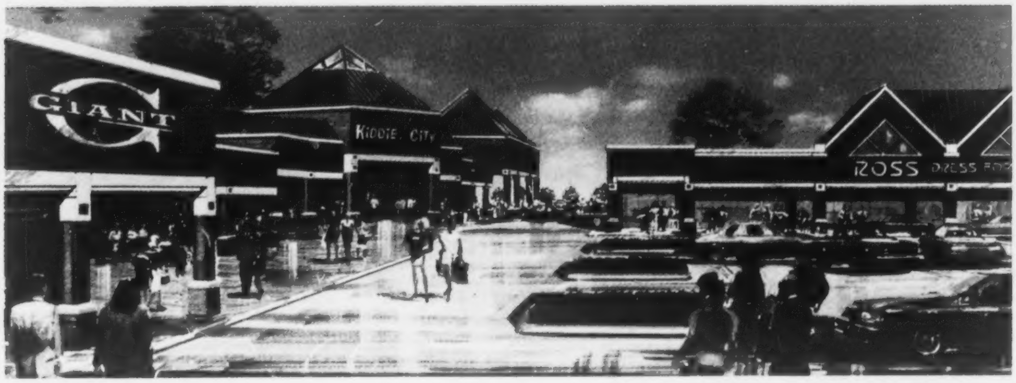

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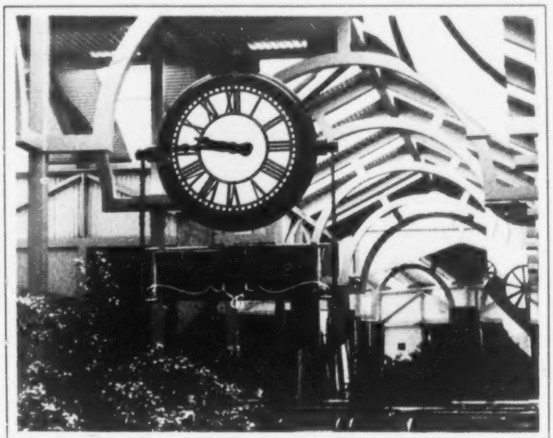

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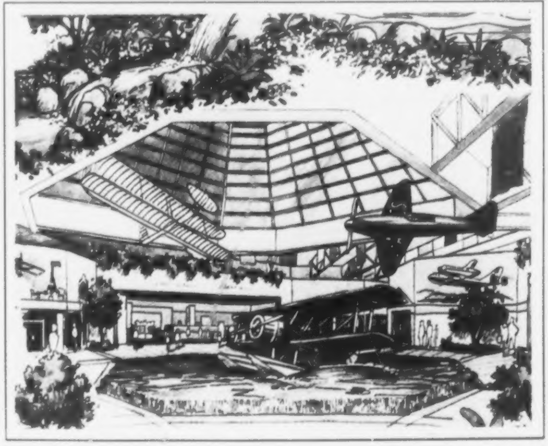

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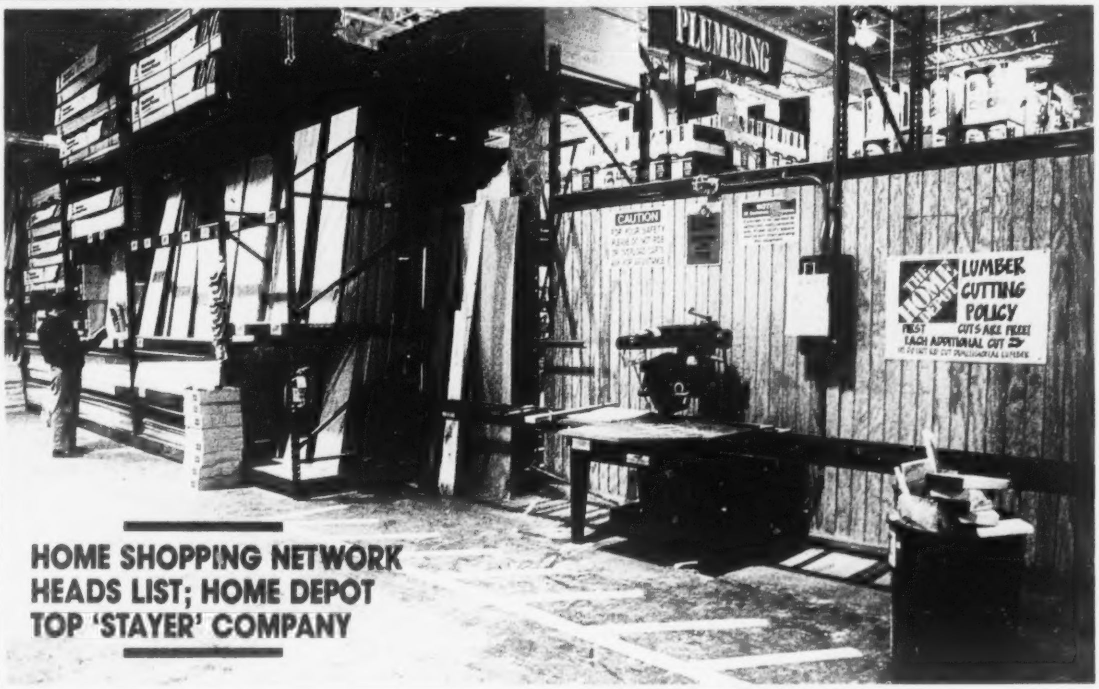
HIGH PERFORMERS LED BY REBOUNDER



HOME SHOPPING NETWORK HEADS LIST; HOME DEPOT TOP 'STAYER' COMPANY

Home Depot has been a High Performing *Retailer since Management Horizons began the study in 1985.*

Incumbency may be the surest way to repeat as a winner in politics, but in retailing, as in most sports, being number one doesn't guarantee successive success.

That's just one of the lessons that can be gleaned from a review of this year's High Performance Retailer Award program jointly sponsored by *Chain Store Age Executive* and Management Horizons, the Columbus, Ohio-based consulting arm of Price Waterhouse.

This year's leading High Performance Retailer provided retailing's version of the 1991 Atlanta Braves and Minnesota Twins, teams that came from nowhere to grab the Western division crowns of the National and American Leagues, respectively. Home Shopping Network is the top rated company for the period 1985 to 1990. Like the Braves and Twins, Home Shopping Network did not have a winning season the prior year. It lost $14.9 million.

But for the year ended August 31, 1990, HSN turned around and racked up profits of $38.8 million and boosted sales an extraordinary 30.2%.

One Price Clothing, meanwhile, failed to repeat as number one among the power elite but still managed to come in respectable third.

HSN is the top rated company for the period 1985 to 1990

The year-to-year turnaround by HSN did not in and of itself merit HSN's selection as the best High Performance Retailer. The award is structured to avoid the vagaries of huge one-year fluctuations.

Rather, the High Performance Retailer program recognizes companies that consistently, over time, demonstrate an ability to outperform the marketplace.

Management Horizons analyzes company results in blocks of time sufficient to smooth out the cyclical nature of retailing. While a poor year could keep a company off the list of outstanding retailers, a good year, even a rebound year, cannot guarantee inclusion in the sphere of the retail aristocracy.

(For details of the analysis methodology see related story, p. 36.)

The multi-year analysis also means that some companies that have been blowing results through the roof for the last few years do not necessarily qualify for High Performance status.

Take, for example, the case of Costco Wholesale Corp. Its sales have been truly blockbuster, rising to gargantuan size from 1985 through 1990. Revenues skyrocketed to $4.1 billion from just $366.4 million.

Yet, Costco did not qualify as a High Performance Retailer because

HIGH PERFORMANCE RETAILERS 1985 to 1990

Company	*Compound revenue growth*	Revenue growth index A+	*Compound profit growth*	Profit growth index B+	*ROA*	ROA index C=	Retail performance index D
TOTAL RETAILING MEDIAN	*11.56%*	50	*12.43%*	50	*4.15%*	100	200
Home Shopping Network	*146.2*	632	*375.2*	1,510	*5.2*	126	2,268
Intelligent Electronics	*152.3*	659	*130.5*	525	*6.9*	166	1,350
One Price Clothing	*73.2*	316	*49.9*	201	*21.5*	517	1,034
Wet Seal	*57.6*	249	*125.6*	505	*8.4*	201	955
Martin Lawrence Limited Editions	*51.6*	223	*68.7*	276	*11.9*	287	786
BeautiControl Cosmetics	*26.9*	116	*24.3*	98	*22.1*	533	747
Duty Free International	*45.9*	198	*55.6*	224	*12.9*	310	732
Tiffany & Co.	*24.2*	105	*86.4*	348	*10.5*	254	707
The Home Depot*	*40.4*	174	*81.9*	329	*8.2*	198	701
The Gap*	*24.5*	106	*39.2*	158	*16.0*	384	648
Nature's Sunshine Products	*15.4*	66	*65.6*	264	*13.0*	314	644
Dress Barn*	*22.5*	97	*22.1*	89	*18.3*	440	626
Claire's Stores*	*27.9*	121	*22.3*	90	*15.6*	376	587
The Limited*	*17.1*	74	*35.1*	141	*14.9*	358	573
Merry-Go-Round Enterprises	*30.8*	133	*38.8*	156	*11.7*	281	570
Medicine Shoppe International	*18.5*	80	*24.9*	100	*15.7*	378	558
Wal-Mart*	*31.0*	134	*31.6*	127	*11.9*	287	548
Hannaford Bros.	*15.6*	68	*58.1*	234	*10.1*	242	544
Quality Food Centers	*20.5*	89	*40.7*	164	*11.7*	281	534
ValCom	*37.7*	163	*36.5*	147	*7.9*	189	499
Designs	*42.7*	185	*41.5*	167	*5.9*	141	493
Food Lion*	*24.5*	106	*29.4*	118	*10.7*	257	481
The Good Guys*	*32.9*	142	*26.7*	108	*9.2*	221	471
Trans World Music*	*33.1*	143	*31.3*	126	*7.8*	188	457
The Price Co.	*23.5*	101	*22.2*	89	*10.4*	251	441
Spec's Music*	*24.3*	105	*16.6*	67	*11.0*	266	438
Toys "R" Us*	*22.8*	98	*22.7*	89	*10.0*	240	427
Arbor Drugs*	*23.2*	100	*24.7*	99	*8.7*	209	408
Melville	*12.7*	55	*12.8*	52	*12.0*	288	395
CUC International	*39.0*	169	*22.2*	89	*5.1*	124	382
Wolohan Lumber*	*14.4*	62	*27.6*	111	*8.5*	204	377
Tuesday Morning	*15.3*	66	*13.7*	55	*9.7*	234	355
Bruno's*	*20.8*	90	*17.1*	69	*8.0*	192	351
Uni-Marts	*22.9*	99	*34.4*	139	*4.4*	106	344
J. Baker	*29.3*	127	*13.9*	56	*6.7*	161	344
Spiegel	*18.6*	80	*36.5*	147	*4.3*	104	331
Walgreen	*13.9*	60	*13.1*	53	*8.8*	212	325
Nordstrom*	*17.3*	75	*18.3*	73	*7.0*	168	316
Dillard Department Stores*	*17.6*	76	*22.3*	90	*6.0*	145	311

*Denotes "stayer" companies, those retailers who have achieved above industry performances for each of the five year study periods previously analyzed.

Source: *Chain Store Age Executive*/Management Horizons

during the base year of the study, 1985, the Seattle-based company sustained a loss.

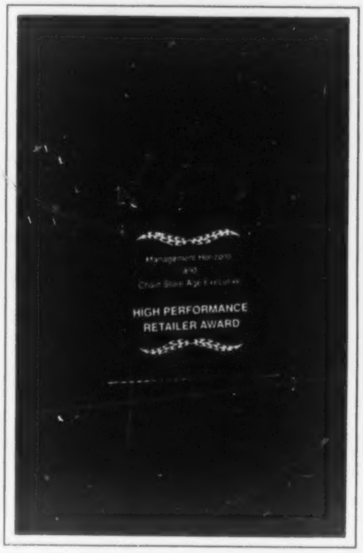
Anyone searching for evidence that retailing is beset by problems can find statistical proof in the year-to-year decline in median industry results.

Management Horizons studies three important yardsticks to determine the High Performance Retailers, and in all three cases, the median figures have dropped precipitously.

Compound annual revenue growth in the latest period reviewed came in at 11.56%, a more than two percentage points drop from 13.66% a year ago. In 1989, the compound annual growth rate for revenues was 14.95%.

The decline in compound annual earnings improvement was not as great but still reflected the slide in retailing. In 1989, the median industry increase was 13.73%. That dropped to 12.58% in 1990, and, for this year's

Wet Seal is one of eight *apparel retailers to earn a High Performance Retailer Award.*



analysis, came in lower at 12.43%.

Average return on assets also dropped, a most dramatic 25.6% compared to the companies reviewed in 1989. The average ROA for 1991 was 4.15% compared to 5.58% in 1989 and 4.94% in 1990.

The difficulty in sustaining outstanding performance can also be seen in the number of retailers who failed to repeat as High Performance Retailers. Ten companies did not repeat. They include Williams-Sonoma, Lands' End, The Sharper Image, The Computer Factory, Best Buy, Circuit City Stores, Gantos, Pier 1 Imports, Pep Boys—Manny, Moe & Jack and S&K Famous Brands.

Newcomers to the list for 1991 include Home Shopping Network, Intelligent Electronics, Wet Seal, Martin Lawrence Limited Editions, BeautiControl Cosmetics, Duty Free International, Tiffany & Co., Nature's Sunshine Products, ValCom, Designs, Melville, Tuesday Morning, Uni-Marts, J. Baker, Spiegel and Walgreen.

It is hard enough repeating as a High Performance Retailer on a year-to-year basis. Even harder is making the list every year that the review has been undertaken by Management Horizons.

Only 17 retailers have been members of the High Performance club since its inception six years ago. Led by Home Depot, the list of "stayer" companies, the phrase used by Management Horizons, includes The Gap, Dress Barn, Claire's Stores, The Limited, Wal-Mart, Food Lion, The Good Guys, Trans World Music, The Price Company, Spec's Music, Toys "R" Us, Arbor Drugs, Wolohan Lumber, Bruno's, Nordstrom and Dillard. ■

TIPS ON HOW TO GET INTO THE 'CLUB'

Membership in the High Performance Retailer club is a pretty exclusive affair and is not open to flash in the pan performers. To qualify, a retailer must have achieved above industry average returns for the period 1985 to 1990.

Three important criteria were measured by Management Horizons for 279 public U.S. companies and 36 Canadian retailers. They included compound annual revenue growth, compound annual profit growth and average return on assets. Median results were computed for the public companies. Individual companies were measured against the industry medians.

The medians for the current study were:

- Compound revenue growth: 11.56%
- Compound profit growth: 12.43%
- Average return on assets: 4.15%

To facilitate the comparison of retail companies, each of the criterion were given a median index value. The first two measurements received index values of 50. Return on assets was given an index value of 100.

The overall median retail performance index, the sum of all three indices, totaled 200.

Any company whose score exceeded 200 earned a place on the High Performance Retailer list.

Every retail company's performance was indexed to the median in each criterion. For example, J. Baker's compound revenue growth of 29.3% was 2.55 times greater than the industry average (29.3 divided by 11.6). Multiplying 2.55 by the index value of 50 gave J. Baker a revenue growth index of 127.

J. Baker's profit growth was 1.12 times greater than the median, yielding a profit index of 56. Its return on assets was 1.61 times larger, and, after multiplying by the 100 index value, the ROA score was 161.

J. Baker's total score was 344.

SALES REMAIN WEAK IN SEPTEMBER

RETAILERS BRACE FOR DISAPPOINTING CHRISTMAS

Retail sales failed to improve in September, heightening speculation that retailers would face their third weak Christmas in a row.

As measured by the Mitsubishi Bank retail chain store sales index, same store retail sales posted only a 2.7% gain in September. Sales slipped 0.6% on a seasonally adjusted basis, their lowest level on the index since June.

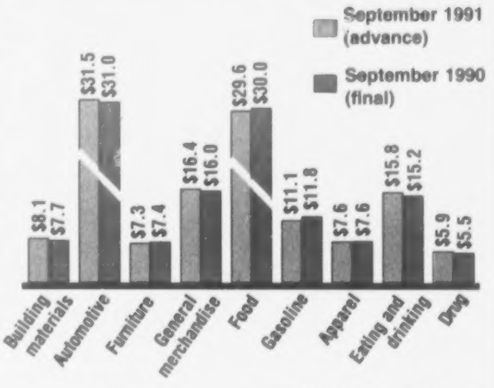
Some retailers were affected by a calendar shift that removed the Saturday of Labor Day weekend from this year's sales figures compared to September 1990. Wal-Mart, which continued to stand out against the industry's results overall, estimated that the shift lowered its comparable store sales gain by about 2 percentage points.

Many retailers also said that the warm weather in September hurt sales of fall merchandise. Some noted an upturn in sales during the first week of October, when weather became cooler.

Bracing for the tepid sales to continue, however, retailers say they are ordering more cautiously and maintaining lower inventory levels for the holiday season.

SEPTEMBER SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	September '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$3,255,000	+32.0	+ 7.0	$26,577,000	+36.0	+11.0
Kmart	2,969,689	+ 5.3	+ 1.4	21,535,721	+ 7.8	+ 3.8
Sears	3,068,997	− 1.0	− 0.9	21,410,522	− 1.9	− 2.4
Penney	1,420,000	+ 1.0	+ 0.1	9,644,000	− 2.4	− 3.6
Dayton Hudson	1,340,000	+ 9.1	+ 5.1	9,410,000	+ 9.8	+ 2.2
May	973,000	+ 8.3	+ 0.4	6,480,000	+ 7.6	− 0.4
Melville[1]	892,787	+ 7.2	− 0.5	6,801,036	+18.3	+ 0.3
Walgreen[5]	532,790	+11.6	+ 7.9	4,969,430	+11.6	+ 7.9
Woolworth	496,000	+ 4.1	− 0.2	3,583,000	+ 2.9	− 2.5
The Limited	532,500	+16.0	+ 4.0	3,650,000	+17.0	+ 3.0
Mercantile	218,272	+ 3.5	+ 2.8	1,469,452	+ 4.6	+ 2.5
Circuit City[2]	213,600	+16.0	− 4.0	N/R	N/R	N/R
The Gap	255,000	+41.0	+20.0	1,504,000	+30.0	+12.0
Rose's	94,066	N/R	− 0.2	905,444	N/R	+ 1.9
Neiman-Marcus Group[3]	167,600	+ 1.0	− 2.2	292,200	+ 0.7	− 3.3
Venture Stores	128,800	+ 4.5	+ 2.8	893,000	+ 7.0	+ 3.7
Edison Bros.	114,400	+ 7.6	N/R	847,700	+14.7	N/R
Jamesway	75,400	+ 5.0	+13.0	527,800	+ 2.0	N/C
Charming Shoppes	92,800	+15.0	+ 5.0	651,500	+16.0	+ 7.0
Ross	71,000	+13.0	− 1.0	588,000	+18.0	+ 2.0
Dollar General	53,300	+16.1	+10.6	442,400	+13.2	+ 8.5
Best Buy[4]	76,000	+29.0	+10.0	435,000	+29.0	+10.0
Gottschalks	24,800	+ 5.0	+ 5.0	181,500	+15.0	+ 6.9
Claire's	19,935	+ 1.0	−10.0	157,267	+ 6.0	− 8.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R = not reported N/C = no change

Source: Company reports

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November 1991/Section 2

Survey of
Human Resources Executives
in the Retail Industry

Ernst & Young's Survey of Executive Compensation in the Retail Industry

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DEAR RETAILER:

For more than 25 years, Ernst & Young's National Survey of Executive Compensation has reported on executive pay in 24 U.S. industries. For the last five years, the survey has included executive compensation in the retail industry. Last year, Ernst & Young produced a supplemental report on the retail industry, and this year, Ernst & Young has entered into a partnership with *Chain Store Age Executive* to produce this report.

A total of 86 retail companies participated in this survey, providing compensation data on approximately 850 executives in 40 positions. The retail participants had annual sales revenues ranging from under $25 million to more than $1 billion.

This report covers base salaries, short-term bonuses, and the area of long-term compensation programs. It also features a profile of a fast-growing company's human resources program, and a discussion of some of the current trends in executive compensation, notably the prevalence of variable pay tied to performance.

We would like to thank the 86 retailers who took the time to fill out survey questionnaires. Without their cooperation, this study would not have been possible.

Stephanie Shern

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Associate Publisher
Chain Store Age Executive

COMPENSATION TRENDS IN RETAIL: AN EXECUTIVE OVERVIEW

In the last several years, the trend in executive compensation has been to hold the line on fixed pay while placing a greater emphasis on variable pay that is tied to performance. This year, we have found, pay for performance has become the de facto standard in retail executive compensation.

The great majority of retail companies are now structuring their executives' pay so that base salaries remain somewhat stable, while a significant portion is variable and tied to company objectives, like sales or profitability. If a retail company is ailing, the executive team is "incentivised" to turn it around. If a company is healthy, executive pay is structured to encourage continued performance. At Dayton Hudson, for example, CEO Ken Macke's base salary has been frozen through 1992, and incentives for performance have been increased.

Retail professionals agree that pay for performance is a good practice. "The people who truly perform in today's environment are being compensated, and that's fair," says Robert E. Kerson, a retail industry executive search consultant.

Properly structured, variable pay also serves the interests of all parties: the executive, the company, and the shareholders. But one of the key challenges is: how do you structure compensation in a volatile industry like retail, where goals can shift quickly?

Many companies today are trying to "incentivise" their executives' compensation toward long-term objectives.

Many companies today are trying to incentivise their executives' compensation toward long-term objectives. Through such vehicles as stock options, retailers hope to encourage planning and performance over a relatively long period of time, rather than a "quick-hit" mentality that does not encourage long-term growth. Stockholders and institutional investors certainly prefer this approach, as do the company's employees. Kerson says executives are also seeking "ownership," so there is often a mutuality of interest.

However, troubled companies are forced to focus on the short term, and consequently, they tend to structure their compensation plans for the short term. Some companies do not even have long-term plans, and one chain will not design one until it's out of Chapter 11.

In compensation, then, there can be tension between long-term objectives and short-term realities. A company's executive team may believe strongly in a set of long-term objectives, but if problems are acute, these objectives may need to be postponed. As a result, shorter-term incentive packages replace long-term plans, and in a worst-case scenario, a short-term mentality takes over.

Some insiders, including Kerson, feel that this is indeed happening in retail today. "If there's anything wrong with pay for performance today, it's that it's too short term," says Kerson.

Ed Wingate, Senior Vice President of Personnel for Dayton Hudson, agrees, saying, "There is too much of a short-term mentality in retail." Moreover, he says, "Long-term incentives are not as directly related to competitive performance as they should be."

Proper performance incentives can not only inspire performance, they can aid in retention.

"I can understand the motivation of boards of directors to try to encourage performance," he says. "But my own feeling is that many current long-term plans are more luck of the draw than incentive. Are executives going to perform any better or differently if he/she has more stock options? I don't think so. There needs to be greater clarity of why incentives are offered (comparable store growth compared to competitors, ROI versus competition, etc.), rather than the hope that price earnings multiples will increase."

The Split-Plan Solution While the so-called short-term mentality may present a problem in the industry, it is not a major problem for compensation professionals. According to Doug Giles, the May Company's Senior VP, Human Resources, it is not unusual to simply design a "split" plan. A percentage of the variable pay is a bonus tied to this year's performance, and another percentage is a bonus tied to long-term performance. In this way, he says, "You can incentivise for both the short and longer term."

The Challenge of Retention Another, potentially more sticky, challenge is retaining top-performing retail executives. In this highly charged environment, star performers are highly valued—especially those executives with turnaround and/or proven financial expertise. How do companies retain them? "By setting attainable goals so these executives can smell success," says Kerson. In other words, proper performance incentives can not only inspire performance, they can aid in retention.

Both Wingate and Giles agree. However, both say that retention is less of a problem at strong companies that tend to have sound programs. Both feel that if a company's program is a good mix of long- and short-term incentives, the executives will generally respond with a longer-term commitment.

Compensation Tied to "New" Initiatives They will also respond to some of the industry's so-called "new" initiatives, like customer service and inventory management. While retailers do not generally tie executive compensation to "non-quantifiable" things like customer service, a growing number are, including Dayton Hudson and The May Company.

Giles says The May Company has designed a proprietary system for quantifying customer service. Through this system, executives are evaluated, and a portion of their compensation is tied to this evaluation.

Wingate says that at Dayton Hudson, "Executives are being asked to do other things, like deliver on customer service standards and function as part of a team. Our compensation is being tied to these areas."

In a sense, performance is being redefined in retail now, and in some companies, compensation is being adapted to the new definition.

Pay-for-Performance Dominates Survey Findings Our survey confirms the overall trend toward pay for performance. Generally, bonuses fell during the period surveyed, and base salary increases declined. When we looked closer at the data, however, there appeared to be a contradiction. Typically, in a pay-for-performance scenario, any increases in total compensation would be driven by large increases in bonuses and small increases in base salaries.

This year, however, total compensation increases were driven by increases in base salary. Why did this happen? Simply because bonuses were down. Salary increases were not large (five percent), but they carried more weight in the overall increase in compensation. The bottom line is, this finding is not incompatible with a pay-for-performance scenario in a year in which performance is down. Bonuses, after all, are tied to performance, and if performance is off—if sales and profits are down—bonuses should also be down.

Closing the Gap on CEOs Another sign of the times: top executives closed the gap on CEOs last year, and CFOs made great strides. Chief executive officers paid a particularly heavy price, it seems, for the poor performance of their companies. While virtually all CEOs were eligible for bonuses, only 64 percent received one, down from 69 percent in 1989. In addition, for those CEOs who received a bonus, bonus as a percentage of base was down from 88 percent in 1989 to 66 percent in 1990.

Retailers are putting great emphasis on financial survival measures, and as a result, they must compensate generously the individuals responsible for their survival.

By contrast, other top positions, including legal counsel and especially chief financial officer, enjoyed increases in compensation. The CFO moved up two positions in the compensation rankings this year, and is now the fifth highest paid position in the industry. The reason, we believe, has to do with the hard economic times. Retailers are putting great emphasis on financial survival measures, and as a result, they must compensate generously the individuals responsible for their survival. In addition, a company in grave financial condition must pay "top dollar" for a talented individual coming on board from another company or industry.

Of course, virtually every top executive's pay is tied to the company's financial performance, and this did not change in 1990. Overall, bonus eligibility was essentially the same as it was in 1989 as was the number of top executives receiving a bonus. Seventy-five percent received bonuses in 1990, compared to 70 percent in 1989. However, bonuses that were paid were, on average, smaller: 39 percent in 1989 versus 33 percent in 1990.

Other Management Executives The same was true for other management executives. This group did not go without bonuses, as the CEO did. It had about the same level of bonus eligibility as it did in 1989 (84 percent), and about the same percentage (79 percent) of individuals received bonuses. However, the bonuses themselves were smaller.

The reason for this, we believe, is because top and other management bonuses are generally tied to specific objectives in addition to company financial measures. Clearly, the members of these groups met some objectives, so they qualified for their bonuses. However, because overall revenue was down at the company, the pool of funds available for bonuses was smaller, and therefore individual bonuses were smaller.

Rent-A-Center's Rapid Growth Challenges Human Resources to Recruit and Retain

For many retailers today, personnel downsizing is a regular, if distressing, part of doing business. At Rent-A-Center, personnel are not being "downsized," and business is anything but distressing. This subsidiary of THORN-EMI has weathered the recession extraordinarily well; in fact, it is enjoying a fifth straight year of rapid growth. As it has since 1986, the company will add more than 100 stores this year, bringing the total to approximately 1,050 by year-end 1991.

"We have to make sure the company has the employee base to sustain itself and grow," says Rent-A Center's Director, Field Human Resources. " This is never easy."

This puts Rent-A-Center's Human Resources department in the unusual—and challenging—position of recruiting and training hundreds of new people each year, and retaining this workforce as the organization grows larger.

Cutting staff is heartbreaking. Adding hundreds of people a year in a tight labor market must be backbreaking.

"It's certainly a challenge," says Robert D. Brockman, Rent-A-Center's Director, Field Human Resources. "We have to make sure the company has the employee base to sustain itself and grow. This is never easy."

To recruit, the company uses a number of methods, including college recruiting, job fairs, which often attract college graduates, and 1-800 "job lines." Through this service, a recruit calls a number in his or her area, and submits to a pre-interview "screening." Unqualified candidates are eliminated through "knock-out" questions.

Once a candidate is identified, Rent-A-Center relies on a standardized interview process to evaluate the person. This is actually a six-step process that begins, naturally, with an application, followed by an interview with an in-store manager. The interview, which is "patterned" to assess knowledge, skills, traits and experience, includes a pen-and-paper "survey" called the Stanton Profile. The profile is designed to provide indicators of a candidate's work motivation, adaptability and flexibility, service orientation, and trustworthiness. It helps evaluate a person's character, and by itself will not qualify or disqualify a candidate.

The next step in the process is a second interview, this time with a multi-unit manager. If the candidate passes muster here, there is a reference check, followed by a visit to a store. Here, the candidate has a chance to observe a Rent-A-Center unit in action and decide if he or she will be comfortable in this environment.

If the candidate joins the company, there is a two-week orientation in a flagship training store, followed by a 90-day, learner-controlled training program. This program is also formalized, and includes several "checkpoints." When the new hire masters a segment of the program, a store manager signs off and the employee moves on to the next segment. To complete the program, the employee must pass a final exam.

Focus on retention According to Brockman, the hiring process is a top priority, but retention ranks just as high, if not higher. For one thing, he says, if you can retain your employees, you've alleviated the problem of crisis hiring in an unstable labor market. Retention is also stressed at Rent-A-Center because of the nature of the business.

Rent-A-Center customers rent household durable goods, like electronics, appliances, and furniture, with an option to buy these goods. They do not make a simple transaction with the company; they establish an on-going relationship with the organization—and with the person who rents them the merchandise.

At Rent-A-Center, the Account Representative who rents you merchandise is usually the person who sets up your payment plan, delivers and installs the product, manages your account, and, if necessary, handles collections. Because of this close personal relationship, the company wants and needs to retain these employees for as long as possible.

To maximize its retention rate, the company has devised a Putting People First Retention Program. The program consists of six elements: environment, selection, orientation, training and development, communications, and incentives/recognition.

Environment refers to the store itself. "What is the environment we've created?" asks Brockman. "Is it conducive to a satisfied, productive workforce?"

Selection refers to the hiring process. Here, management reviews the process to make sure they have conformed to company guidelines and hired the right people.

Orientation is designed to ensure that the employee understands and accepts the company philosophy, policies, compensation program, and so on.

Rent-a-center
Rent-A-Center
RAC
Rent·A·Center

Training was described earlier.

Communications has four components: weekly store meetings, "rap sessions" with multi-unit managers, performance appraisals, and a grievance procedure which gives employees an avenue for addressing problems internally.

Finally, there is the recognition program. Right now, positions under manager receive a competitive base salary with no bonus program. Superior performance is recognized with salary increases and promotions. The manager level and above also has a pay-for-performance program. Executives are compensated with base salaries plus bonuses based on company performance and their ability to meet other business objectives. Store managers also receive recognition for "developing" an entry-level account representative into an assistant store manager.

Is the retention program working? "Absolutely!" says Brockman. "We effectively dropped our entry-level account representative turnover 30 percent this fiscal year."

At Rent-A-Center, the focus is on retention. "If you can retain your employees," says Robert Brockman, "you've alleviated the problem of crisis hiring in an unstable labor market."

SURVEY HIGHLIGHTS

This year's survey results clearly demonstrate the continuation of the trend toward pay for performance. Oddly enough, it took several years of declining performance to confirm that there is a true linkage between pay and performance. For the majority of executives in retail, bonuses were significantly lower as performance slumped.

Salary In 1990, most of the increase in total compensation was driven by salary increases. Overall, average 1990 base salaries paid to retail industry executives rose a healthy nine percent. However, average 1991 increases in base salaries (where such increases were granted) were reported at only five percent.

In comparison, base salaries paid to executives of bonus-paying companies also increased nine percent, while 1991 increases averaged six percent. In addition, salary increases did not vary significantly between executive groups. Increases between executive groups varied slightly in bonus companies from nine percent at the CEO and top executive group to seven or eight percent for the other executive groups.

Bonus The majority of retail companies included in the study provide bonus opportunities to executives, with approximately 83 percent indicating bonus eligibility. However, only 76 percent of the retail executives who were eligible to receive a bonus actually received one for 1990 performance. In addition, the ratio of bonus as a percentage of base salary calculated for retail executives who actually received a bonus, was 29 percent in 1990. This was down from 37 percent the year before.

Total Compensation Average percentage increases in total compensation paid in bonus-paying retail companies was nine percent, while total compensation paid by all retail companies increased nine percent. This is unlike the findings of the past several years where bonus paying companies traditionally found their total compensation increasing faster than the overall population (all companies including non-bonus companies).

Unlike base salary increases, there was more variability in total compensation increases across executive groups. The average 1990 increase in total compensation for retail CEOs and top executives was 10 percent. Of the other executive groups, financial executives received the largest increase in total compensation, 10 percent, while systems executives received the lowest total compensation increase, averaging five percent.

COMPENSATION FINDINGS

Table 1 summarizes 1990 increases paid to the CEO and top executives as a group, financial executives, human resource executives, systems executives and marketing and store operations executives. The data in Table 1 will be referenced throughout this report.

On face value, this year's data does not appear to reflect the shift toward incentive compensation. The impact salary increases have had on the executive pay dollar appears magnified due to the relatively smaller bonuses that have been paid in the last year. However, these smaller bonuses are to be expected as a direct result of the current state of the retail economy. Consequently, a strong linkage between pay and performance is supported by the reduction in the incentive element of the total compensation dollar.

Table 1

Retail Industry Executives Average Percentage Increase in Compensation (1989-1990)

Analysis of Bonus And All Companies

	CEO and Top Executives	Financial Executives	Human Resource Executives	Systems Executives	Marketing and Store Operations Executives
Bonus Companies					
Total Compensation	10%	8%	7%	6%	9%
Base Salary	9%	7%	7%	7%	8%
All Companies					
Total Compensation	10%	10%	7%	5%	8%

Chief Executive Officer Compensation Base salaries paid to CEOs in bonus-paying retail companies increased by an average of 11 percent in 1990. However, in 1991, CEO base salaries increased only four percent where reported.

Only 64 percent of bonus-eligible CEOs actually received a bonus for 1990 performance. In addition, the ratio of bonus payments to base salary in bonus-paying companies was 66 percent for CEOs, down significantly from 88 percent the year before. As a result, total compensation paid to the CEOs of bonus-paying retail companies increased 10 percent during 1990, down from 17 percent in

Top Executive Compensation Base salaries increased by an average of nine percent in 1990 and six percent in 1991. While 83 percent of the top executives for whom data were reported were eligible for bonus payments, only 75 percent of those eligible actually received a bonus. Like the CEO, those executives that received a bonus saw it drop from 39 percent of base salary in 1989 to 33 percent in 1990. Total compensation for top executives in all retail companies increased 10 percent in 1990.

Comparison: Top Executives to Chief Executive Officer When analyzing compensation levels, it is often useful to compare the compensation of key executives to that of the chief executive officer. In this year's survey, top executives' compensation moved closer to that of the CEO. Overall, top executives' base salaries were 49 percent of the CEO in 1991, up from 48 percent in 1990. Similarly, total compensation as a percent of the CEO rose to 43 percent in 1991 from 41 percent in 1990. The CFO had a significant increase relative to the CEO, becoming the fifth highest paid executive in the retail industry, an industry typically dominated by store operations and merchandising executives.

Table 2 presents average annual 1991 base salaries as of April 1 for the top executives as a percent of the CEO's 1991 base salary. Table 3 presents top executives' average 1990 total compensation as a percentage of the CEO's total compensation. Table 4 presents bonus eligibility, payment percentages, and bonus as a percent of base salary for this same group.

Table 2

Top Executives 1991 Base Salary as a Percent of CEO's Base Salary

	% of CEO's Base
Chief Operating Officer	78.5%
Top Store Operations Executive	65.3%
Top Merchandising Executive	64.0%
Top Legal Executive	58.4%
Top Financial Officer	53.6%
Top Real Estate Executive	52.0%
Top Human Resources Executive	43.2%
Top Systems and Data Processing Executive	42.9%
Top Marketing and Sales Executive	40.8%
Top Distribution and Warehousing Executive	40.6%
Top Security and Loss Prevention Executive	33.2%
Top Visual Merchandising Executive	31.7%
Top Store Planning and Fixturing Executive	30.2%

Table 3

Top Executives 1990 Total Compensation as a Percent of CEO's Total Compensation

	% of CEO's Total Compensation
Chief Operating Officer	79.4%
Top Merchandising Executive	55.5%
Top Store Operations Executive	55.2%
Top Legal Executive	53.8%
Top Financial Officer	48.6%
Top Real Estate Executive	47.5%
Top Human Resources Executive	38.0%
Top Systems and Data Processing Executive	35.6%
Top Marketing and Sales Executive	34.8%
Top Distribution and Warehousing Executive	34.4%
Top Security and Loss Prevention Executive	26.5%
Top Visual Merchandising Executive	25.3%
Top Store Planning and Fixturing Executive	23.1%

Table 4

CEO and Top Executives 1990

Bonus Analysis

	% Eligible	% of Those Eligible Paid a Bonus	Bonus as % of Base Salary (Where Paid)
Chief Executive Officer	79.8%	64.4%	65.9%
Chief Operating Officer	80.5%	74.1%	63.6%
Top Distribution and Warehousing Executive	89.5%	88.2%	26.9%
Top Financial Officer	82.0%	76.1%	38.1%
Top Human Resources Executive	81.4%	65.6%	29.1%
Top Legal Executive	93.3%	77.8%	26.1%
Top Marketing and Sales Executive	89.3%	61.9%	35.7%
Top Real Estate Executive	89.5%	92.9%	28.7%
Top Merchandising Executive	86.4%	82.4%	34.3%
Top Security and Loss Prevention Executive	77.8%	78.6%	18.6%
Top Store Operations Executive	81.8%	66.7%	34.0%
Top Store Planning and Fixturing Executive	76.9%	66.7%	13.3%
Top Systems and Data Processing Executive	79.6%	76.7%	22.1%
Top Visual Merchandising Executive	80.0%	85.7%	16.8%

Other Management Executives Data for other senior management executives is reported separately for financial executives, human resource executives, systems executives, and marketing and store operations executives. Base salary increases in 1990 were highest for financial executives and lowest for systems executives. Likewise, total compensation increases in 1990 were highest for financial executives and lowest for systems executives.

Financial Executives Base salaries for financial executives rose by an average of 10 percent in 1990. In 1991 base salaries increased only five percent. Of the financial executives for whom compensation data were reported, 81 percent were eligible for bonus payments, of which 77 percent actually received a bonus. On average, bonuses where paid to financial executives for 1990 performance equaled 20 percent of base salary, down from 24 percent in 1989. The top real estate executives reported the highest bonus/base salary ratio of 29 percent, where paid, while the top internal audit and top cash management executives had the lowest ratio at 15 percent for those executives receiving bonuses.

Total compensation for financial executives rose by an average of 10 percent in 1990. Bonus-paying companies reported an average increase of eight percent, reflecting a seven percent increase in base salaries, and a nine percent increase in bonuses, where paid. Within the financial executives group, the largest average increase in total compensation was reported for the top corporate risk management executive at 17 percent. The lowest average increase was received by top credit and collection executives where the average was two percent.

Human Resource Executives Base salaries for human resource executives rose by an average of seven percent in 1990 and six percent in 1991. Of the human resource executives for whom compensation data were reported, 85 percent were eligible for bonus payments, of which 88 percent actually received a bonus. On average, bonuses where paid to human resource executives for 1990 performance equaled 17 percent of base salary, down from 20 percent the year before. The top employee relations executives reported the highest bonus/base salary ratio of 22 percent, where paid, while the top benefits executives had the lowest ratio at 13 percent for those executives receiving bonuses.

Total compensation for human resource executives rose by an average of seven percent in 1990. Bonus-paying companies also reported an average increase of seven percent. Within the human resources executive group, the largest average increase in total compensation was reported for the top compensation and benefits executive at 12 percent. The lowest average increase was received by top benefits executives where the average was four percent.

Systems Processing Executives Base salaries for systems executives rose by an average of seven percent in 1990, compared to five percent in 1991. Of the systems executives for whom compensation data were reported, 88 percent were eligible for bonus payments, of which 76 percent actually received a bonus. On average, bonuses where paid to systems processing executives for 1990 performance equaled 15 percent of base salary, down from 16 percent in 1989. The top data processing operations executives reported the highest bonus/base salary ratio, 17 percent, while the top software systems programming executives had the lowest ratio, 10 percent.

Total compensation for systems executives rose by an average of five percent in 1990. Bonus-paying companies reported an average increase of six percent. Among systems executives, the largest average increase in total compensation was reported for the top applications programming executive and the top telecommunications executive, both at eight percent. The lowest average increase was received by top software systems programming executives where the average was three percent.

Marketing and Store Operations Executives Base salaries for marketing and store operations executives rose by an average of seven percent in 1990 and five percent in 1991. Of the marketing and store operations executives for whom compensation data were reported, 82 percent were eligible for bonus payments and 76 percent actually received a bonus. On average, bonuses where paid to marketing and store operations executives equaled 22 percent of base salary, down from 26 percent in 1989. The top advertising executives reported the highest bonus/base salary ratio, 24 percent, while the top sales executives had the lowest ratio at 17 percent.

Total compensation for marketing and store operations executives rose by an average of eight percent in 1990. Bonus-paying companies reported an average increase of nine percent. Among the marketing and store operations executives, the largest average increase in total compensation was reported for the top advertising executive at 11 percent. The lowest average increase was received by top public relations executives, where the average was four percent.

Comparison: Other Management Executives to the Chief Executive Officer

Table 5 presents average 1991 base salaries for the other senior executives as a percent of the CEO's 1991 base salary. Table 6 presents the average 1990 total compensation for other senior executives as a percentage of the CEO's total compensation. Table 7 presents bonus eligibility, payment percentage, and bonus as a percent of base salary.

Table 5

Other Management Executives 1991 Base Salary as a Percent of CEO's Base Salary

	% of CEO's Base
Financial Executives	
Treasurer	39.1%
Top Tax Executive	36.5%
Controller	34.6%
Top Credit and Collection Executive	33.0%
Top Corporate Risk Management Executive	32.5%
Top General Accounting Executive	31.4%
Top Internal Audit Executive	29.2%
Top Financial Analysis Executive	27.9%
Top Budget Executive	27.5%
Top Cash Management Executive	25.7%
Human Resources Executives	
Top Compensation and Benefits Executive	36.6%
Top Employee Relations Executive	31.4%
Top Training Executive	30.3%
Top Compensation Executive	28.9%
Top Benefits Executive	26.4%
MIS and Systems Executives	
Top Applications Program Executive	35.7%
Top Data Processing Operations Executive	32.7%
Top Telecommunications Executive	31.7%
Top Software Systems Programming Executive	29.3%
Marketing and Store Operations Executives	
Top Advertising Executive	41.3%
Top Marketing Executive	40.1%
Top Public Relations Executive	40.0%
Top Market Research Executive	34.9%
Top Traffic and Transportation Executive	30.0%
Top Sales Executive	26.3%
Top Sales Promotion Executive	24.6%

Table 6

Other Management Executives 1990 Total Compensation as a Percent of CEO's Total Compensation

	% of CEO's Total Compensation
Financial Executives	
Treasurer	31.4%
Top Tax Executive	30.2%
Top Credit and Collection Executive	28.3%
Controller	27.7%
Top Corporate Risk Management Executive	26.4%
Top General Accounting Executive	23.8%
Top Internal Audit Executive	23.4%
Top Financial Analysis Executive	22.8%
Top Budget Executive	21.0%
Top Cash Management Executive	20.7%

Table 6 Continued

Human Resource Executives	
Top Compensation and Benefits Executive	30.2%
Top Employee Relations Executive	24.6%
Top Compensation Executive	23.7%
Top Training Executive	23.7%
Top Benefits Executive	20.7%
Systems Executives	
Top Applications Programming Executive	28.4%
Top Telecommunications Executive	27.5%
Top Data Processing Operations Executive	25.7%
Top Software Systems Executive	21.8%
Marketing and Store Operations Executives	
Top Public Relations Executive	37.2%
Top Advertising Executive	35.1%
Top Marketing Executive	32.4%
Top Market Research Executive	32.1%
Top Traffic and Transportation Executive	24.8%
Top Sales Executive	19.6%
Top Sales Promotion Executive	18.8%

Table 7

Other Management Executives

1990 Bonus Analysis

	% Eligible	% Paid	Bonus as % of Base Salary
Financial Executives			
Controller	78.4%	68.4%	21.3%
Top Budget Executive	85.7%	66.7%	*
Top Cash Management Executive	100.0%	100.0%	14.8%
Top Corporate Risk Executive	83.3%	60.0%	*
Top Credit and Collection Executive	75.0%	100.0%	22.8%
Top Financial Analysis Executive	100.0%	85.7%	15.7%
Top General Accounting Executive	76.5%	75.0%	16.6%
Top Internal Audit Executive	73.3%	87.5%	14.5%
Top Tax Executive	93.8%	78.6%	17.4%
Treasurer	72.7%	85.7%	26.5%
Human Resource Executives			
Top Benefits Executive	90.0%	88.9%	12.7%
Top Compensation and Benefits Executive	80.0%	100.0%	20.7%
Top Compensation Executive	77.8%	100.0%	14.0%
Top Employee Relations Executive	90.9%	77.8%	22.0%
Top Training Executive	86.7%	81.8%	15.4%
Systems Executives			
Top Applications Programming Executive	83.3%	66.7%	16.2%
Top Data Processing Operations Executive	83.3%	70.0%	17.2%
Top Software Systems Executive	88.9%	75.0%	9.8%
Top Telecommunications Executive	100.0%	100.0%	15.5%
Marketing and Store Operations Executives			
Top Advertising Executive	85.0%	75.0%	24.4%
Top Marketing Executive	85.7%	86.7%	19.9%
Top Public Relations Executive	75.0%	75.0%	*
Top Sales Executive	73.7%	62.5%	16.9%
Top Market Research Executive	66.7%	100.0%	*
Top Sales Promotion Executive	85.7%	66.7%	*
Top Traffic and Transportation Executive	92.9%	72.7%	22.2%

*=Insufficient Data

Long-Term Compensation As part of the overall compensation planning process, retailers seek to balance short-term focus with longer term objectives through the use of long-term compensation programs. Table 8 indicates the use of different long-term programs. *Non-qualified Stock Options* is the most popular type of long-term plan offered to twenty-seven percent of retail executives. The second most popular type of program is *Incentive Stock Options* offered to twenty-two percent of executives. The least popular is *Phantom Stock* offered less than one percent of the time.

Table 8

Prevalence of Long-Term Compensation Plans

Non-Qualified Stock Options	27.3%
Incentive Stock Options	22.4%
Stock Appreciation Rights	1.8%
Restricted Stock	6.2%
Phantom Stock	.5%
Performance Shares/Units	12.0%

COMPENSATION TABLES

Dollars expressed in thousands. The term "match" is defined in the Scope and Methodology section on Page 27.

Chief Executive Officer

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Under $25M	34	3.4	$155.1	$68.5	$110.0	$175.0	2.4%	$137.2	0.2%	75.0%	58.3%	$63.9	60.5%
$25M-100M	13	3.1	$155.7	$100.0	$125.4	$165.0	2.5%	$148.4	2.3%	80.0%	75.0%	$100.1	99.7%
$100M-500M	7	3.3	$240.8	$200.0	$200.0	$300.0	3.1%	$237.4	1.5%	75.0%	*	*	*
$500M-1B	6	3	$295.6	$238.5	$305.0	$391.0	7.1%	$296.4	5.9%	71.4%	80.0%	$130.1	50.0%
Over $1B	13	2.9	$473.1	$375.0	$450.0	$565.0	7.3%	$473.1	7.3%	100.0%	84.6%	$204.6	50.9%
All Levels	**73**	**3.2**	**$244.4**	**$106.7**	**$175.0**	**$357.4**	**4.0%**	**$221.7**	**2.5%**	**79.7%**	**64.4%**	**$102.5**	**65.9%**

Chief Operating Officer

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Under $25M	11	3.1	$96.5	$45.0	$62.0	$98.0	3.7%	$90.5	6.3%	61.5%	40.0%	$37.3	37.4%
$25M-100M	11	3.2	$108.9	$70.0	$115.0	$138.6	10.0%	$108.5	8.9%	83.3%	100.0%	$45.6	54.7%
$100M-500M	*	*	*	*	*	*	*	*	*	*	*	*	*
$500M-1B	5	2.5	*	*	*	*	*	$184.0	5.1%	*	*	*	*
Over $1B	7	3	$387.5	$262.5	$387.0	$485.0	6.1%	$387.5	6.1%	100.0%	71.4%	$179.5	60.6%
All Levels	**37**	**3**	**$191.8**	**$90.0**	**$141.8**	**$267.0**	**8.8%**	**$174.1**	**8.3%**	**80.5%**	**74.1%**	**$92.2**	**63.6%**

Top Financial Officer

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Under $25M	18	3.4	$59.9	$42.9	$54.0	$72.5	8.1%	$60.9	8.3%	66.7%	63.6%	$11.0	24.5%
$25M-100M	13	3.1	$70.2	$51.0	$77.7	$83.8	5.2%	$72.8	4.7%	85.7%	72.7%	$18.5	39.0%
$100M-500M	9	3.2	$138.9	$100.0	$115.0	$193.0	12.9%	$131.7	8.6%	77.8%	50.0%	$35.9	70.9%
$500M-1B	7	3	$160.4	$114.1	$145.0	$210.0	6.2%	$158.7	5.2%	85.7%	80.0%	$34.0	24.9%
Over $1B	13	3	$214.3	$168.0	$180.0	$247.0	6.6%	$214.3	6.6%	100.0%	100.0%	$87.7	41.2%
All Levels	**60**	**3.2**	**$125.6**	**$68.9**	**$100.3**	**$173.9**	**7.4%**	**$118.8**	**6.9%**	**82.0%**	**76.1%**	**$40.2**	**38.1%**

Top Marketing and Sales Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Under $25M	14	3.1	$57.2	$44.3	$56.0	$65.5	6.0%	$64.0	5.4%	86.7%	50.0%	$9.9	38.9%
All Levels	**25**	**2.9**	**$89.3**	**$46.9**	**$74.1**	**$120.0**	**7.5%**	**$90.5**	**7.8%**	**89.3%**	**61.9%**	**$18.5**	**35.7%**

Top Human Resources Executives

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Under $25M	5	2.5	*	*	*	*	*	*	$33.0	4.0%	*	*	*
$25M-100M	8	3.1	$50.2	$45.0	$46.0	$60.0	4.7%	$49.2	4.1%	77.8%	71.4%	$4.7	14.4%
$100M-500M	9	3.1	$83.9	$63.0	$88.4	$108.0	6.2%	$80.0	4.8%	77.8%	28.6%	$3.6	19.3%
$500M-1B	8	2.9	$122.3	$84.8	$95.4	$170.0	2.3%	$113.9	2.6%	87.5%	83.3%	$27.5	24.2%
Over $1B	11	3.3	$157.7	$122.4	$155.0	$194.1	5.0%	$157.7	5.0%	100.0%	90.0%	$61.3	42.1%
All Levels	**41**	**3**	**$106.0**	**$60.0**	**$97.4**	**$140.0**	**4.9%**	**$95.7**	**4.2%**	**81.4%**	**65.6%**	**$26.1**	**29.1%**

Top Legal Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	9	3	$148.6	$135.2	$140.0	$150.7	6.7%	$148.6	6.7%	100.0%	100.0%	$40.6	24.9%
All Levels	**15**	**2.9**	**$133.2**	**$100.0**	**$137.6**	**$150.7**	**5.7%**	**$129.5**	**4.5%**	**93.3%**	**77.8%**	**$32.9**	**26.1%**

Top Systems and Data Processing Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Under $25M	5	3.2	*	*	*	*	*	$47.3	10.5%	*	*	*	*
$25M-100M	7	2.6	$49.9	$38.0	$53.8	$55.0	5.7%	$53.6	1.6%	66.7%	80.0%	$2.3	5.9%
$100M-500M	8	3	$81.7	$57.5	$86.3	$97.5	7.3%	$79.2	4.0%	75.0%	60.0%	$8.1	23.7%
$500M-1B	8	3	$98.3	$68.5	$87.7	$138.0	5.3%	$95.2	4.5%	87.5%	83.3%	$16.8	19.7%
Over $1B	12	3.4	$145.2	$109.1	$134.5	$205.0	3.9%	$149.8	3.9%	92.3%	91.7%	$37.2	28.7%
All Levels	**40**	**3**	**$98.7**	**$58.4**	**$93.2**	**$123.6**	**5.9%**	**$95.1**	**4.3%**	**79.5%**	**76.7%**	**$20.0**	**22.1%**

Top Public Relations Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	5	3.4	*	*	*	*	*	$114.9	5.6%	*	*	*	*
All Levels	**8**	**2.9**	**$103.8**	**$56.6**	**$93.8**	**$100.0**	**5.6%**	**$88.4**	**4.5%**	**75.0%**	**75.0%**	*	*

Top Real Estate Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
$500M-1B	7	2.6	$107.8	$70.0	$105.0	$136.0	6.9%	$100.3	6.7%	85.7%	80.0%	$34.4	33.4%
Over $1B	8	3	$133.4	$114.0	$122.5	$153.4	4.3%	$133.4	4.3%	100.0%	100.0%	$35.9	27.1%
All Levels	18	2.9	$118.7	$80.5	$118.5	$138.9	5.6%	$115.2	5.3%	89.5%	92.9%	$33.9	28.7%

Top Advertising Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
$500M-1B	6	2.8	$85.8	$66.5	$89.0	$93.0	4.3%	$79.4	3.6%	83.3%	80.0%	$20.5	26.0%
Over $1B	9	3.1	$112.8	$79.0	$93.3	$115.5	3.8%	$112.8	3.8%	100.0%	87.5%	$24.4	24.0%
All Levels	20	2.9	$97.1	$75.0	$89.0	$102.0	4.6%	$91.6	4.1%	85.0%	75.0%	$19.4	24.4%

Top Marketing Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Under $25M	7	2.9	$56.9	$37.5	$57.0	$70.0	8.9%	$55.1	8.9%	85.7%	83.3%	$4.7	11.1%
$25M-100M	*	*	*	*	*	*	*	*	*	*	*	*	*
$100M-500M	*	*	*	*	*	*	*	*	*	*	*	*	*
$500M-1B	*	*	*	*	*	*	*	*	*	*	*	*	*
Over $1B	6	2.8	$130.8	$96.0	$109.5	$201.9	4.8%	$130.8	4.8%	100.0%	100.0%	$33.1	21.8%
All Levels	18	2.9	$90.1	$50.5	$77.5	$109.1	8.7%	$89.0	8.7%	85.7%	86.7%	$17.4	19.9%

Top Sales Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Under $25M	7	3.4	*	*	*	*	*	$43.8	6.6%	*	*	*	*
$25M-100M	5	3	*	*	*	*	*	$59.0	3.9%	*	*	*	*
All Levels	15	3.2	$57.5	$40.0	$54.4	$64.5	5.3%	$58.4	5.0%	73.7%	62.5%	$[illegible].9	16.[illegible]%

Top Compensation and Benefits Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	7	3.3	$84.3	$69.0	$76.4	$93.0	3.4%	$84.7	2.9%	85.7%	100.0%	$16.4	20.4%
All Levels	**9**	**3.2**	**$83.3**	**$69.0**	**$77.5**	**$93.0**	**4.4%**	**$81.1**	**4.2%**	**80.0%**	**100.0%**	**$16.3**	**20.7%**

Controller

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Under $25M	12	3.1	$59.3	$48.0	$55.0	$75.0	10.9%	$52.1	9.4%	53.8%	50.0%	$6.0	22.7%
$25M-100M	10	3.1	$56.5	$43.4	$52.5	$68.0	5.6%	$55.2	5.1%	81.8%	66.7%	$3.3	10.6%
$100M-500M	9	3.1	$74.5	$52.6	$65.0	$100.8	7.4%	$74.6	5.7%	88.9%	28.6%	$3.6	18.9%
$500M-1B	7	3	$87.5	$74.5	$80.6	$95.0	2.5%	$84.1	2.2%	85.7%	83.3%	$14.1	19.7%
Over $1B	11	3	$124.2	$100.7	$114.0	$135.0	5.6%	$120.0	5.6%	90.9%	100.0%	$34.1	28.6%
All Levels	**49**	**3.1**	**$82.8**	**$55.0**	**$74.5**	**$106.4**	**6.3%**	**$76.7**	**6.0%**	**78.4%**	**68.4%**	**$13.6**	**21.3%**

Treasurer

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Under $25M	7	3.3	*	*	*	*	*	$64.0	8.0%	*	*	*	*
Over $1B	8	3.1	$114.5	$79.4	$109.9	$134.2	6.0%	$114.5	6.0%	100.0%	100.0%	$34.2	29.1%
All Levels	**21**	**3.1**	**$94.0**	**$59.6**	**$98.5**	**$112.0**	**6.4%**	**$86.6**	**5.9%**	**72.7%**	**85.7%**	**$23.0**	**26.5%**

Top Tax Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	8	3	$102.3	$72.8	$94.3	$133.0	3.5%	$102.3	3.5%	100.0%	87.5%	$19.8	18.6%
All Levels	**15**	**3**	**$83.9**	**$57.2**	**$72.8**	**$100.0**	**4.6%**	**$80.9**	**4.3%**	**93.8%**	**78.6%**	**$13.9**	**17.4%**

Top General Accounting Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
$500M-1B	5	3	*	*	*	*	*	$64.6	8.7%	*	*	*	*
Over $1B	9	2.9	$72.0	$63.9	$68.9	$78.0	5.0%	$72.0	5.0%	100.0%	87.5%	$11.4	16.1%
All Levels	**17**	**3**	**$68.5**	**$61.0**	**$67.7**	**$76.5**	**6.8%**	**$69.7**	**6.5%**	**76.5%**	**75.0%**	**$9.6**	**16.6%**

Top Internal Audit Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	7	3	$78.8	$66.0	$72.8	$75.0	2.0%	$76.8	4.7%	85.7%	100.0%	$20.3	20.0%
All Levels	**14**	**2.9**	**$71.8**	**$62.7**	**$67.9**	**$74.5**	**2.1%**	**$64.8**	**3.1%**	**73.3%**	**87.5%**	**$11.9**	**14.5%**

Top Employee Relations Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	7	3.1	$74.9	$59.1	$68.0	$100.0	6.8%	$74.9	6.8%	100.0%	71.4%	$14.0	24.3%
All Levels	**10**	**3.1**	**$72.4**	**$62.0**	**$65.2**	**$72.0**	**6.4%**	**$69.5**	**6.2%**	**90.9%**	**77.8%**	**$13.1**	**22.0%**

Top Compensation Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	6	2.7	$65.1	$50.0	$66.0	$68.2	6.7%	$63.3	6.7%	83.3%	100.0%	$12.8	16.8%
All Levels	**9**	**2.9**	**$62.8**	**$48.0**	**$66.0**	**$68.2**	**10.4%**	**$64.2**	**8.9%**	**77.8%**	**100.0%**	**$9.9**	**14.0%**

Top Benefits Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	6	2.8	$65.1	$49.4	$64.8	$68.7	6.6%	$65.1	6.6%	100.0%	100.0%	$10.7	15.4%
All Levels	**10**	**2.8**	**$60.1**	**$49.4**	**$52.5**	**$66.5**	**6.3%**	**$58.5**	**5.7%**	**90.0%**	**88.9%**	**$7.6**	**12.7%**

Top Training Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	8	3.1	$73.5	$56.2	$75.0	$82.2	6.0%	$73.0	5.9%	87.5%	85.7%	$10.3	16.3%
All Levels	**13**	**3.1**	**$69.0**	**$55.6**	**$72.0**	**$82.2**	**5.0%**	**$67.1**	**4.8%**	**86.7%**	**81.8%**	**$8.7**	**15.4%**

Top Market Research Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
All Levels	**6**	**3**	*	*	*	*	*	**$77.4**	**5.2%**	**66.7%**	**100.0%**	*	*

Top Sales Promotion Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
All Levels	**7**	**2.7**	**$54.5**	**$50.0**	**$58.7**	**$60.1**	**5.0%**	**$54.6**	**4.3%**	**85.7%**	**66.7%**	*	*

Top Traffic and Transportation Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	9	3.4	$71.5	$63.7	$70.0	$82.8	6.3%	$71.5	6.3%	100.0%	87.5%	$15.6	23.0%
All Levels	**13**	**3.3**	**$69.6**	**$60.3**	**$67.2**	**$77.0**	**5.1%**	**$66.6**	**4.9%**	**92.9%**	**72.7%**	**$12.3**	**22.2%**

Top Applications Programming Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	7	3.3	$85.8	$72.5	$86.1	$90.0	4.1%	$86.7	3.5%	85.7%	66.7%	$10.3	19.9%
All Levels	**12**	**3.3**	**$78.7**	**$70.0**	**$76.3**	**$87.1**	**2.9%**	**$79.1**	**2.6%**	**83.3%**	**66.7%**	**$8.1**	**16.2%**

Top Software Systems Programming Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	5	2.8	$69.8	$56.9	$72.6	$75.4	4.1%	$69.8	4.1%	100.0%	80.0%	$6.2	11.8%
All Levels	9	3	$67.0	$56.0	$66.5	$74.0	6.4%	$65.0	6.0%	88.9%	75.0%	$4.7	9.8%

Top Data Processing-Operations Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	8	3.3	$82.2	$70.6	$80.0	$87.9	5.8%	$83.2	5.7%	87.5%	85.7%	$13.7	18.4%
All Levels	**12**	**3.3**	**$75.1**	**$69.4**	**$73.5**	**$87.5**	**5.3%**	**$72.6**	**5.1%**	**83.3%**	**70.0%**	**$10.1**	**17.2%**

Top Telecommunications Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	5	3	$76.9	$61.7	$73.5	$83.4	5.3%	$76.9	5.3%	100.0%	100.0%	$14.0	17.9%
All Levels	**7**	**2.9**	**$70.4**	**$46.3**	**$67.1**	**$83.4**	**5.6%**	**$70.4**	**5.6%**	**100.0%**	**100.0%**	**$12.0**	**15.5%**

Top Financial Analysis Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	6	2.8	$62.8	$52.8	$66.3	$68.9	3.5%	$62.8	3.5%	100.0%	83.3%	$10.2	18.1%
All Levels	**7**	**2.9**	**$61.9**	**$52.8**	**$65.0**	**$68.9**	**3.7%**	**$61.9**	**3.7%**	**100.0%**	**85.7%**	**$9.0**	**15.7%**

Top Budget Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
All Levels	**7**	**3.1**	**$67.4**	**$61.8**	**$63.8**	**$80.0**	**6.6%**	**$61.1**	**5.6%**	**85.7%**	**66.7%**	*	*

Top Credit and Collection Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	5	2.8	$85.7	$75.2	$91.7	$95.0	2.1%	$85.7	2.1%	100.0%	100.0%	$23.4	28.0%–
All Levels	**8**	**2.6**	**$79.8**	**$66.8**	**$83.5**	**$95.0**	**2.6%**	**$73.3**	**2.3%**	**75.0%**	**100.0%**	**$18.9**	**22.8%**

Top Corporate Risk Management Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
All Levels	**5**	**3**	*	*	*	*	*	**$72.0**	**4.6%**	**83.3%**	**60.0%**	*	*

Top Cash Management Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
All Levels	**5**	**2.8**	**$57.1**	**$50.0**	**$60.1**	**$66.2**	**6.3%**	**$57.1**	**6.3%**	**100.0%**	**100.0%**	**$8.6**	**14.8%**

Top Merchandising Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
$100M-500M	5	3	*	*	*	*	*	$121.6	9.9%	*	*	*	*
$500M-1B	*	*	*	*	*	*	*	*	*	*	*	*	*
Over $1B	9	3.3	$165.8	$130.0	$160.0	$200.0	8.7%	$165.8	8.7%	100.0%	100.0%	$61.4	39.8%
All Levels	**22**	**3.1**	**$152.1**	**$110.5**	**$143.2**	**$190.5**	**6.6%**	**$142.0**	**7.8%**	**86.4%**	**82.4%**	**$40.6**	**34.3%**

Top Store Operations Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
$100M-500M	5	3	*	*	*	*	*	$126.3	0.5%	*	*	*	*
$500M-1B	7	3.3	$158.7	$112.9	$142.0	$215.0	3.9%	$159.1	3.4%	85.7%	100.0%	$42.5	28.3%
Over $1B	5	3	$176.5	$121.0	$187.9	$225.0	13.0%	$176.5	13.0%	100.0%	66.7%	$38.3	38.9%
All Levels	**21**	**3.2**	**$150.7**	**$112.5**	**$145.0**	**$187.9**	**5.6%**	**$144.7**	**4.6%**	**81.8%**	**66.7%**	**$32.5**	**34.0%**

Top Visual Merchandising Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
Over $1B	5	3	$80.9	$63.8	$89.0	$90.4	3.4%	$80.9	3.4%	100.0%	100.0%	$17.6	20.1%
All Levels	**10**	**2.9**	**$79.3**	**$58.2**	**$76.4**	**$96.9**	**2.9%**	**$70.3**	**2.6%**	**80.0%**	**85.7%**	**$12.2**	**16.8%**

Top Store Planning and Fixturing Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
All Levels	**12**	**3.2**	**$66.9**	**$54.0**	**$65.9**	**$77.9**	**4.1%**	**$66.9**	**3.0%**	**76.9%**	**66.7%**	**$5.7**	**13.3%**

Top Distribution and Warehousing Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
$500M-1B	7	3	$84.3	$67.5	$77.1	$95.5	3.3%	$83.1	2.9%	85.7%	100.0%	$14.9	20.6%
Over $1B	9	3.1	$104.3	$89.0	$100.0	$117.5	8.9%	$104.3	8.9%	100.0%	100.0%	$28.8	31.0%
All Levels	**19**	**3.1**	**$93.4**	**$84.0**	**$89.0**	**$112.5**	**5.9%**	**$90.0**	**5.4%**	**89.5%**	**88.2%**	**$20.5**	**26.9%**

Top Security and Loss Prevention Executive

			1991 BASE SALARY							1990 BONUS			
			Bonus-Paying Companies					All Companies					
1990 Sales	Count	Match	Mean	1st Q	Median	3rd Q	% Inc 90-91	Mean	% Inc 90-91	% Bonus-Eligible	% Paid Bonuses	Average 1990 Bonus	Bonus as a % of Base
$500M-1B	5	2.8	·	·	·	·	·	$84.4	3.4%	·	·	·	·
Over $1B	7	3.3	$87.1	$64.6	$80.6	$112.0	5.2%	$84.7	4.4%	85.7%	83.3%	$15.7	21.5%
All Levels	**18**	**3**	**$80.9**	**$63.0**	**$70.3**	**$92.1**	**4.5%**	**$73.7**	**3.9%**	**77.8%**	**78.6%**	**$11.7**	**18.6%**

SCOPE AND METHODOLOGY

The information for this study was collected by survey questionnaire in the spring of 1991 in conjunction with Ernst & Young's 1991 Executive Compensation Survey of 23 industries[1]. In total, 86 retail companies responded, providing compensation information for approximately 850 executives in 40 positions.

Participants were asked to provide base salary data for each executive for the calendar years 1989, 1990, and 1991. Bonus information was obtained for 1989 and 1990. Base salary data reported for 1989 and 1990 reflect levels in effect as of December 31 of each year. Salary data for 1991 reflect annualized salaries as of April 1, 1991. Bonus amounts submitted for the years 1989 and 1990 represent amounts earned in those years, regardless of whether those amounts were deferred in whole or in part.

Data are reported for the CEO, top executives, financial executives, human resources executives, MIS executives and marketing and store operations executives. If sufficient data were not available for a given position, that information or table was omitted from this report.

Wherever the term total compensation is used in this report, it refers to the sum of an executive's annual base salary plus bonus. Bonus refers to an annual cash payment that is based on individual and/or corporate performance for the prior fiscal year. Bonuses reflect amounts actually earned in a given year, whether or not these amounts were deferred wholly or in part.

The term bonus-eligible refers to an executive's participation in a formal or informal bonus program in which the potential exists to earn an annual cash award. An executive was considered to be from a bonus-paying company if the individual was bonus-eligible in 1990 and "bonus-eligible" was checked off on the survey questionnaire. The term percentage bonus-eligible refers to the percentage of executives eligible to receive a bonus for 1990 performance, regardless of whether a bonus was actually paid.

Percentage increase in compensation was calculated based on data reported for executives in either bonus or nonbonus companies as described above. However, executives who received bonuses for 1990, but did not receive bonuses for 1989, were not included when calculating the percentage change in bonus payments. This was done in order to avoid distorting the overall change.

The term "all companies" refers to compensation data reported for executives in both bonus and nonbonus companies as described above. The term "match" in the compensation tables reflects the degree to which participating companies' positions matched the descriptions in the following appendix. The degree of match was indicated on a scale of 1-5, with 3 being a perfect match, one represents significantly less responsibility, 5 significantly more.

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[1] Ernst & Young's 1991 Executive Compensation Survey includes salary and bonus information for a total of over 10,000 executives in 68 positions from over 1,100 companies.

EXECUTIVE POSITIONS AND DESCRIPTIONS

For purposes of the study, the executive positions were divided into six categories as follows:

Chief Executive Officer

The executive with final responsibility to the board of directors and shareholders for the organization's current profitability and long-range growth. In some instances, the chief executive officer may hold the title of "chairman," and in others, "president."

TOP EXECUTIVE GROUP

Chief Operating Officer

The executive responsible for coordinating and directing the activities of the corporation in accordance with the policies and objectives established by the directors. Specific functions usually include assisting in the development of policies regarding all corporate functions; directing management in conducting all business activities, including short- and long-term planning, financial areas, production, marketing, and personnel; establishing policies to ensure adequate management development; establishing controls to maintain adequate communication and information flows; regularly evaluating the results of overall operations; ensuring that all corporate activities are carried out in accordance with government laws and regulations; and directing growth and acquisition activities.

Top Distribution and Warehousing Executive

The executive responsible for directing and controlling warehouse activities. Duties typically include ensuring the efficient and economical utilization of facilities for storing and distributing raw material and finished goods inventories; directing the flow of goods from the warehouse to the store locations; and establishing inventory control procedures.

Top Financial Officer

The principal executive responsible for the organization's financial plans and policies, its accounting practices, and the conduct of its relationships with lending institutions, shareholders, and the financial community. Duties usually include executive direction over treasury, budgeting, audit, tax, real estate and insurance activities, and the development of accounting and statistical data for internal control.

Top Human Resources Executive

The executive responsible for developing and administering employment and personnel policies. Specific functions usually include setting and managing hiring procedures and compensation policies; dealing with unions and employee groups in the area of labor relations; designing and monitoring training and development programs, career planning services, safety and health regulations, and employee benefits and services; directing various activities designed to maintain a high level of employee morale; and keeping abreast of government laws and regulations such as OSHA, ERISA, and EEO; as well as formulating policies consistent with these rules.

Top Legal Executive

The executive responsible for directing the company's legal activities in a manner that protects its legal interests. Specific functions usually include counseling all company executives on the legal aspects of their functional areas; providing counsel to company personnel on corporate matters involving legal documents (e.g., contracts, mergers, or leases); handling the registration and protection of patents and trademarks; defending the company in any legal action taken against it and initiating legal action against aggressors; and reviewing the legal aspects of pricing and sales promotion programs.

Top Marketing and Sales Executive

The executive responsible for planning, directing, and coordinating the efforts of marketing and sales personnel toward the accomplishment of corporate objectives. Typical duties include developing objectives, policies, and programs for the marketing activities of the corporation; maintaining and constantly improving the corporation's competitive position; ensuring maximum sales volume at minimum cost; and supplying advice and assistance to the chief executive officer and other company operating units in the field of sales activity.

Top Merchandising Executive

The executive responsible for directing the buying/merchandising (sometimes sales promotion) activities of the corporation. Duties may include supervising buying and sales; and overseeing the work of general merchandise staff in their various commodity lines.

Top Real Estate Executive

The executive responsible for assisting staff and divisions regarding plant locations, site acquisition, space leasing, and other functions relating to land acquisition. Duties typically involve planning, directing and controlling the operations of real estate activities for the company to ensure maximum return and profitability.

Top Security and Loss-Prevention Executive

The executive responsible for developing and implementing the company's entire loss-prevention program. Duties typically include ensuring compliance with loss-prevention procedures by field offices through scheduled audits by home office personnel; updating loss-prevention personnel in the field offices regarding trends, new requirements, and other changes in procedure; supervising the administration of the home office prevention department; directing the selecting, training, development, promotion, transfer and termination of loss-prevention personnel; and investigating and reporting on possible violations of company policy or business and professional ethics.

Top Store Operations Executive

The executive responsible for the operation and profitability of the retail stores. Duties typically include controlling operating costs; implementing merchandising programs; supervising store management; and supervising all other store-related activities except buying.

Top Store Planning and Fixturing Executive

The executive responsible for directing and coordinating plans for stores and fixturings. Duties may include budgeting, estimating, purchasing furniture and fixtures, and coordinating these activities through architects, designers and consultants.

Top Systems and Data Processing Executive

The executive responsible for supervising the organization's EDP systems and programming activities, such as designing systems, programming, and operating computer equipment. Specific functions usually include planning, coordinating, and supervising feasibility studies for EDP applications; designing and implementing appropriate EDP systems; developing long- and short-range plans and schedules for the acquisition and installation of equipment; planning and coordinating feasibility studies, such as the economic evaluation of proposed and existing EDP equipment; supervising the establishment of programming standards and methods throughout the company; and directing the operation of computers and peripheral equipment to ensure low-cost operation and effective utilization of personnel and equipment.

Top Visual Merchandising Executive

The executive responsible for creating, interpreting, and coordinating all visual media in merchandise presentations through the optimum use of unique display and signing methods and materials. Duties typically include supervising the coordination of store-wide promotions for the departmental areas and windows, and directing the activities of the sign shop.

FINANCIAL EXECUTIVES

Controller

The executive immediately responsible for the organization's accounting practices, for the maintenance of its fiscal records, and for the preparation of its financial reports. Typically, duties involve supervising general accounting, property accounting, internal auditing, cost accounting, and budget. (Duties may include the data processing functions.) The controller is also responsible for the development, analysis, and interpretation of statistical and accounting information in order to appraise operating results in terms of profitability, performance against budget (and other standards), and capital expenditures. The controller also handles other matters bearing on the fiscal soundness and operating effectiveness of the organization. (If the controller has chief corporate financial responsibility, the position is reported as the "top financial officer.")

Top Budget Executive

The executive responsible for developing and administering budgetary control systems, for preparing operation and capital budgets, and for monitoring, analyzing, and interpreting actual budgetary performance results. Duties usually involve preparing basic forecasts and other budgeting guidelines; participating in the development of income projections; assisting departments in establishing expense plans; and preparing various control and statistical reports to provide a basis for management planning, operating controls, and performance appraisal.

Top Cash Management Executive

The executive responsible for cash balances, day-to-day relationships with banks, supervision of cashiering activities, and other related activities such as loans, short-term investments, capital stock matters, and disbursements. Typical duties include allocating cash balances; representing the firm in day-to-day relations with banks and financial institutions; preparing cash forecasts, budgets, and short-term requirements; administering short-term loans; and supervising payroll activities.

Top Corporate Risk Management Executive

The executive directly responsible for developing and administering the organization's risk management and loss-prevention programs. Specific functions usually include determining risks of loss to which the company's assets are exposed; analyzing such risks for purpose of elimination or minimization; negotiating company insurance programs; negotiating adjustments of insured and uninsured losses with insurers and company personnel; administering the underwriting functions of self-insurance programs; and coordinating commercial insurance and self-insurance programs.

Top Credit and Collection Executive

The executive responsible for recommending credit policies and for establishing procedures to appraise credit risks, identify past-due accounts, and collect funds due to the company. Specific functions usually include determining the amount of credit to be extended; recommending the working capital required to support accounts receivable; supervising adjustments in customer claims; settling accounts on the company's behalf within policy limits; participating in investment review and in special studies of economic conditions in particular industries; and indoctrinating salespeople in company credit policies and practices.

Top Financial Analysis Executive

The executive responsible for the evaluation of current and proposed financial plans, policies, and recommendations of change which will accrue to the company's profitability.

Top General Accounting Executive

The executive primarily responsible for the organization's general accounting functions and for the preparation of reports and statistics reflecting earnings, profits, cash balances, and other financial results. Duties involve supervising general ledger maintenance, and may include responsibility for accounts payable and other subsidiary ledgers. Other typical duties are assisting in the development of organization-wide accounting policies and procedures, reviewing financial and operating statements of subsidiaries; consolidating statements; providing functional supervision of branch and/or general plant accounting; and conducting special accounting analyses and studies.

Top Internal Audit Executive

The executive responsible for independent appraisal, measurement and evaluation of accounting, fiscal and managerial controls, as well as for compliance with corporate policies. Duties typically involve recommending auditing methods; directing reviews of accounting procedures; confirming accounts; verifying units; investigating irregularities and errors; and advising on opportunities for improvement in the control system. This executive may also examine tax returns and supervise the compliance of company accounting with government regulations concerning government contracts.

Top Tax Executive

The executive primarily responsible for preparing tax returns and related reports to ensure compliance with all federal, state, and local tax statutes and regulations, as well as for minimizing tax liability by informally applying tax laws and regulations that permit alternative treatment of taxable items. Specific functions commonly include maintaining tax records; acting as liaison and negotiator with tax authorities; preparing special reports concerning the tax consequences of programs or projects; and assisting in establishing depreciation rates and planning inventory levels in relation to tax matters.

Treasurer

The executive immediately responsible for conducting corporate treasury activities, which include care and custody of funds and other financial assets, supervision of banking operations, and determination of the amount and sources of funds required to meet outstanding and planned commitments. The position usually entails maintaining banking relations; arranging for lines of credit; controlling deposit levels and bank selection; overseeing contracts with government authorities concerning tax obligations; and handling insurance functions. Duties may also include preparation of economic or financial analyses that bear on operating plans and policies. (If the treasurer has chief corporate financial responsibility, the position is reported as "top financial officer.")

HUMAN RESOURCE EXECUTIVES

Top Benefits Executive

The executive responsible for the overall direction of the planning and administration of company benefit programs. Duties typically include developing, installing and maintaining competitive and equitable benefit programs for employees; and directing the design of the executive benefit program, as well as other direct benefit programs.

Top Compensation and Benefits Executive

The executive responsible for the overall direction of the planning and administration of company compensation and benefit programs. Duties typically include developing, installing and maintaining competitive and equitable compensation and benefit programs for employees; and directing the design of the executive compensation and benefit programs, as well as other direct compensation and benefit programs.

Top Compensation Executive

The executive responsible for the overall direction of the planning and administration of company compensation programs. Duties typically include developing, installing and maintaining competitive and equitable compensation programs for employees; and directing the design of the executive compensation program, as well as other direct compensation programs.

Top Employee Relations Executive

The executive responsible for establishing, administering, and coordinating company-sponsored employee services and activities. Duties typically include ensuring adherence to applicable statutes and company policies concerning wages, hours, and working conditions; in a union environment, supervising contract negotiations in the unit or subordinate units; advising subordinate units on labor relations matters such as union-organizing drives, contract preparations, negotiations, and settlements; and participating in or advising on grievances and arbitrations.

Top Training Executive

The executive responsible for providing an adequate and continual flow of qualified personnel to fill the employment requirements of the company. Duties typically include identifying training needs, and subsequently developing, administering and coordinating management inventory, appraisal, training, placement, counseling and related programs.

MIS AND SYSTEMS EXECUTIVES

Top Applications Programming Executive

The executive responsible for planning, directing and controlling the development, installation and maintenance of computer business and scientific applications programs. Duties typically include developing and establishing standards and procedures, and coordinating the work of the programming staff.

Top Data Processing Executive

The executive responsible for planning, directing and controlling the activities of data processing operations, exclusive of the systems and programming functions. Duties typically include developing and establishing departmental standards and procedures; consulting with other sections on the proper integration and correlation of the function assigned; and reviewing and evaluating activity and progress reports of the data processing operations section.

Top Software Systems Programming Executive

The executive responsible for planning, directing and controlling the development and maintenance of computer software programs and systems. Duties typically include developing and establishing departmental standards and procedures; monitoring, directing and coordinating staff efforts, both internally and in support of the applications programming staff; evaluating current and projected hardware and software; and coordinating and directing the installation of new operating systems.

Top Telecommunications Executive

The executive responsible for directing and controlling the activities of the telecommunications function such as the plan, design, installation and maintenance of networks in support of data processing systems. Duties typically involve directing the budgeting and long-range planning of telecommunications systems and projects, including various word processing and facsimile equipment systems; consulting with the data processing department to coordinate telecommunications systems capabilities; and reviewing and evaluating activity and progress reports of the telecommunications function.

MARKETING AND STORE OPERATIONS EXECUTIVES

Top Advertising Executive

The executive responsible for directing the creation and placement of all advertising to aid the company in reaching its sales and profitability objectives. Duties typically include initiating, developing and coordinating effective advertising and promotion programs; and utilizing all media to publicize the company's products and/or services.

Top Market Research Executive

The executive responsible for the planning and execution of market analysis and consumer research studies, territorial analysis and other types of economic studies, such as those of sales records and trend research for use in the prediction of market conditions.

Top Marketing Executive

The executive responsible for marketing the company's products and services in compliance with such corporate objectives as maximizing sales volume, profitability, and market share. Specific functions usually include developing short- and long-term marketing strategies; developing pricing strategies; using market research to identify and capitalize on market opportunities; evaluating market reactions to advertising, merchandising procedures, and packaging; and adjusting marketing strategies to reflect changing conditions.

Top Public Relations Executive

The executive responsible for the administration of policies covering the broad field of public relations activities, including public, employee, and stockholder information. Duties typically include developing and administering a public relations program designed to effect and improve understanding by the public and the employees of the corporation's objectives and achievements.

Top Sales Executive

The executive responsible for planning and controlling the activities of sales personnel and maintaining maximum sales volume for the company's products and services. Typical duties include developing pricing, distribution, and other policies to ensure the most efficient and effective operation of sales activities; directing the activities of sales personnel, such as customer communications, order taking, participation in trade conventions, and new business development activities; ensuring adequate training of and communications with sales personnel; directing sales personnel in the preparation of long- and short-range sales forecasts; developing sales programs and appraising their results against planned objectives; and approving the expense budgets for sales personnel.

Top Sales Promotion Executive

The executive responsible for formulating and executing sales promotion policies and programs in order to facilitate and maximize the effectiveness of the company's sales efforts. Duties typically include analyzing the competitive position of the company's products, evaluating sales methods, and preparing sales promotion materials.

Top Traffic and Transportation Executive

The executive responsible for ensuring an integrated distribution system. Duties typically include planning, directing, organizing and controlling overall traffic and transportation plans for the company, and providing overall guidance on company transportation policies.

ACKNOWLEDGEMENTS

ERNST & YOUNG

Ernst & Young is the world's leading integrated professional services firm serving the retail industry. Nationwide, Ernst & Young serves more than 1,000 retail companies in various segments of retailing. Service areas include:

- Compensation and benefits: From design of sales associate compensation and benefits packages to complex senior management programs.
- Information technology: Involving the application of computer and telecommunications technologies to address retailers' business issues; from POS/in-store to distribution center systems; from Quick Response solutions to EDI; from inventory to database management; from design to implementation and integration.
- Performance improvement: Encompassing cost management, operations and quality management, productivity improvement, performance measurement, strategic analysis, change management, financial planning and control, and management reporting.
- Financial restructuring: From merger and acquisition planning to reorganization and workout assistance.
- Accounting, auditing and tax: From evaluating the tax ramifications of doing business abroad to advising retailers on broad accounting and tax issues.

For further information on this study or any of Ernst & Young's services, contact: Stephanie M. Shern, Partner and National Director of Retail Industry Services, Ernst & Young, 277 Park Avenue, New York, N.Y. 10172, 212 773-3120.

BRI
BUSINESS RISKS INTERNATIONAL
HUMAN RESOURCES GROUP

BUSINESS RISKS INTERNATIONAL (BRI), a worldwide professional services firm specializing in security consulting, investigations and loss prevention, announces the formation of its Human Resources Group.

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For more information about the BRI Human Resources Group or to schedule a consultation appointment, please call 1-800-528-5745 (in U.S. and Canada).

ACKNOWLEDGEMENTS

Chain Store Age Executive is the leading publication serving retail headquarters management. A monthly newsmagazine, *Chain Store Age Executive* reports and analyzes trends and strategies in the following areas:

- Corporate strategies
- Operations
- Credit
- Finance
- EDP/MIS/POS
- Communications
- Security
- Marketing
- Store Design/Visual Merchandising
- Store Construction
- Physical Supports
- Human Resources
- Logistics/Distribution
- Shopping Center Development

Chain Store Age Executive has been published since 1925. Its readers include chain headquarters decision makers from department stores, discount stores, specialty stores, supermarkets, convenience stores, variety stores, general merchandise stores, drug stores, home centers, and hardware chains and non-store retailers as well as shopping center owners and developers.

For more information on *Chain Store Age Executive*, contact John S. Rapuzzi, Vice President/Publisher, 425 Park Avenue, New York, N.Y. 10022, 212 756-[illegible]3.

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DISCOUNTERS TAKE LEAD ON BIG BUILDERS LIST

THEY ADD MORE STORES WHILE RECESSION RAGES ON

No class of retailing is weathering the current economic recession as well as discount stores. While sales at department stores and many specialty chains have become lackluster, discounters have loomed more attractive in the eyes of increasingly price-conscious consumers.

It should be no surprise, therefore, that the nation's top two discounters—Wal-Mart and Kmart—lead this year's list of Big Builders, as compiled from a survey of capital expenditures, new stores and new square footage conducted by *Chain Store Age Executive*.

Moreover, third-place Dayton-Hudson's $1 billion capital budget is largely earmarked for the discount chain Target, the company's fastest-growing division. Half of Target's store base has been open for four years or less. Plans call for opening approximately 300 stores during the next five years.

Wal-Mart, the nation's largest retailer and most formidable discounter, nearly doubled its capital spending in 1991, to $2.4 billion. The expansion program included 150 new Wal-Mart stores, 35 Sam's Clubs, two supercenters and three distribution centers.

Kmart is continuing apace with its six-year program of new store openings, enlargements, relocations and refurbishments. By the end of 1995, the discounter expects to be operating more than 2,500 stores that are modern and full-size.

For the most part, the survey indicates that retailers who have strong concepts and the financial clout to back them are continuing to expand even as the economy contracts.

May is moving forward with plans to open 90 new department stores and 1,200 new Payless ShoeSource stores by 1995.

Toys "R" Us is continuing to assert its dominance in the toy industry with a $550 million program based on the concept of regionally clustered expansion. The strategy entails opening several stores at a time, not just one whenever a new market area is entered.

Albertson's is intent on building larger stores, including superstores and combination units. The company's average size store is 42,800 sq. ft., and 83% of the company's square footage consists of stores 35,000 sq. ft.

Capital Expenditures (000 omitted)

Rank	Company	1991	1990
1.	Wal-Mart	$2,400,000	$1,388,298
2.	Kmart	1,200,000	814,000
3.	Dayton Hudson	1,000,000	1,788,000
4.	Sears	650,000	384,000
5.	May	600,000	548,000
6.	Safeway	600,000	490,000
7.	Toys "R" Us	550,000	500,075
8.	American Stores	509,000	374,007
9.	J.C. Penney	500,000	599,000
10.	The Limited	490,000	428,800
11.	Woolworth	421,000	403,000
12.	Albertson's	330,000	258,000
13.	Food Lion	300,000	206,391
14.	Melville	300,000	231,100
15.	The Home Depot	300,000	400,205
16.	Super Valu	257,000	136,000
17.	Blockbuster Entertainment	250,000	251,966
18.	The Gap	250,000	200,000
19.	A&P	200,000	276,000
20.	Giant Food	200,000	168,000
21.	Montgomery Ward	200,000	140,000
22.	Price	200,000	161,722
23.	Walgreen	200,000	200,000
24.	Kroger	187,500	219,500
25.	Lowe's	182,500	133,000

Source: Company reports/*Chain Store Age Executive* estimates

New Square Footage

Rank	Company	1991	1990
1.	Wal-Mart	22,100,000	20,100,000
2.	Kmart	12,500,000	10,800,000
3.	Food Lion	7,296,615	6,540,000
4.	Dayton Hudson	5,749,807	8,578,000
5.	Phar-Mor	4,083,310	4,200,000
6.	Toys "R" Us	4,033,500	3,800,500
7.	The Limited	4,000,000	2,634,000
8.	Safeway	3,633,000	3,444,000
9.	Dillard	3,140,176	3,227,000
10.	Melville	2,991,700	7,515,400
11.	May	2,940,000	4,293,000
12.	Sears	2,900,000	1,700,000
13.	The Home Depot	2,760,000	2,484,000
14.	Woolworth	2,741,000	2,488,000
15.	Winn-Dixie	2,440,000	1,642,200
16.	A&P	2,299,000	3,827,500
17.	Blockbuster Entertainment	2,200,000	2,766,500
18.	Kroger	2,154,600	3,288,600
19.	Office Depot	2,152,000	1,277,186
20.	J.C. Penney	1,800,000	1,700,000
21.	Albertson's	1,712,000	1,326,800
22.	Waban	1,648,000	1,330,000
23.	Super Valu	1,430,000	880,000
24.	Bruno's	1,400,000	950,000
25.	Fred Meyer	1,140,000	924,000

Source: Company reports/*Chain Store Age Executive* estimates

New Stores

Rank	Company	1991	1990
1.	Woolworth	937	896
2.	Melville	692	1,116
3.	The Limited	600	482
4.	Blockbuster Entertainment	400	503
5.	May	275	268
6.	Edison	221	576
7.	Wal-Mart	220	201
8.	Rite Aid Corporation	160	149
9.	The Gap	155	152
10.	Food Lion	135	121
11.	Office Depot	122	55
12.	Kmart	120	134
13.	U.S. Shoe	120	269
14.	Toys "R" Us	101	97
15.	Claire's	100	207
16.	Walgreen	100	112
17.	Petrie	92	113
18.	Sears	83	149
19.	Circuit City	75	34
20.	Phar-Mor	70	72
21.	Tandy	66	177
22.	Dayton Hudson	61	51
23.	Winn-Dixie	61	42
24.	Staples	44	46
25.	Albertson's	40	31

Source: Company reports/*Chain Store Age Executive* estimates

SUPERMARKETS
New Stores

Rank	Company	1991	1990
1.	Food Lion	135	121
2.	Winn-Dixie	61	42
3.	Albertson's	40	31
4.	Kroger	38	58
5.	Safeway	35	30
6.	Bruno's	28	19
7.	A&P	22	109
8.	Publix	16	15
9.	Ralphs Grocery	16	13
10.	American Stores	15	49

Source: Company reports/*Chain Store Age Executive* estimates

SUPERMARKETS
Capital Expenditures (000 omitted)

Rank	Company	1991	1990
1.	Safeway	$600,000	$490,000
2.	American Stores	509,000	374,007
3.	Albertson's	330,000	258,000
4.	Food Lion	300,000	206,391
5.	A&P	200,000	276,000
6.	Giant Food	200,000	168,000
7.	Kroger	187,500	219,500
8.	Publix	175,000	163,700
9.	Winn-Dixie	157,000	114,100
10.	Supermarkets General	125,000	88,000

Source: Company reports/*Chain Store Age Executive* estimates

SUPERMARKETS
New Square Footage

Rank	Company	1991	1990
1.	Food Lion	7,296,615	6,540,000
2.	Safeway	3,633,000	3,444,000
3.	Winn-Dixie	2,440,000	1,642,200
4.	A&P	2,299,000	3,827,500
5.	Kroger	2,154,600	3,288,600
6.	Albertson's	1,712,000	1,326,800
7.	Bruno's	1,400,000	950,000
8.	Fred Meyer	1,140,000	924,000
9.	Publix	897,000	1,508,000
10.	American Stores	678,000	1,040,000

Source: Company reports/*Chain Store Age Executive* estimates

or larger.

Food Lion takes pride in the fact that the depressed real estate industry hasn't slowed its growth. The company's plans are proceeding apace in Texas, where 45 new stores were opened in the Dallas/Fort Worth metroplex in 1991. Plans call for additional growth in Texas and other markets in the Southwest.

Melville, which in the past has focused its specialty concepts on regional malls, anticipates that strip centers will provide an increasing share of future growth. CVS, Marshall's, Linens 'n Things, Freddy's and Bob's are formats the company is now touting as suitable anchors for strip centers.

For The Gap, capital expenditures of $250 million are an all-time high. Gap officials believe their company's future depends on their ability to expand market share. They have targeted a square footage growth rate of approximately 15% per year.

Montgomery Ward is growing at a fast pace and through 1991 will have opened 50 stores in a two-year period. One-third of its stores are now less than 4-years-old.

The venerable 113-year-old chain has successfully reconstituted itself as a chain of value-driven specialty stores. It zeroed in on its basic strengths and named them accordingly: The Apparel Store, Auto Express, Electric Avenue for consumer electronics, and Home Ideas for home furnishings and accessories.

Price Club continues to expand its operations primarily in the Western states and along the Atlantic seaboard. Edison Bros., mainly a footwear retailer a decade ago, has continued to emphasize expansion in the

DISCOUNT STORES
New Stores

Rank	Company	1991	1990
1.	Wal-Mart	220	201
2.	Office Depot	122	55
3.	Kmart	120	134
4.	Staples	44	46
5.	Target	43	21
6.	Price	8	9
7.	Caldor	6	5
8.	Venture	5	4
9.	Rose's Stores	4	2
10.	Fred Meyer	3	5

Source: Company reports/*Chain Store Age Executive* estimates

DISCOUNT STORES
Capital Expenditures
(000 omitted)

Rank	Company	1991	1990
1.	Wal-Mart	$2,400,000	$1,388,298
2.	Kmart	1,200,000	814,000
3.	Target	500,000	500,000
4.	Price	200,000	161,722
5.	Fred Meyer	99,000	122,000

Source: Company reports/*Chain Store Age Executive* estimates

DISCOUNT STORES
New Square Footage

Rank	Company	1991	1990
1.	Wal-Mart	19,300,000	20,100,000
2.	Kmart	12,000,000	18,705,000
3.	Target	4,324,639	2,112,033
4.	Office Depot	2,152,000	1,277,186
5.	Fred Meyer	1,140,000	924,000
6.	Venture	1,000,000	900,000
7.	Price	928,000	1,044,000
8.	Staples	792,000	828,000
9.	Caldor	560,000	480,000
10.	Rose's Stores	208,080	464,040

Source: Company reports/*Chain Store Age Executive* estimates

Wal-Mart nearly doubled its capital spending in 1991, to $2.4 billion

SPECIALTY STORES
New Stores

Rank	Company	1991	1990
1.	Woolworth Specialty	870	838
2.	Melville Specialty	615	650
3.	The Limited	600	482
4.	Blockbuster Entertainment	400	503
5.	Payless ShoeSource	260	221
6.	Edison	221	576
7	The Gap	155	152
8.	Claire's	138	150
9.	U.S. Shoe	120	269
10.	Toys "R" Us	101	97

Source Company reports/*Chain Store Age Executive* estimates

SPECIALTY STORES
Capital Expenditures
(000 omitted)

Rank	Company	1991	1990
1.	Toys "R" Us	$550.000	$500.075
2.	The Limited	490,000	428.800
3.	Mervyn's	400.000	210.000
4.	Blockbuster Entertainment	250.000	251,966
5.	The Gap	250.000	200.000
6.	Payless ShoeSource	190.000	82.000
7.	Woolworth Specialty	150.000	180.000
8.	Melville Specialty	141,000	235.000
9.	Tandy	139.500	112.500
10.	Circuit City	130,000	159.700

Source: Company reports/*Chain Store Age Executive* estimates

SPECIALTY STORES
New Square Footage

Rank	Company	1991	1990
1.	Toys "R" Us	4,033.500	3.800.500
2.	The Limited	4,000.000	2,634,000
3.	Blockbuster Entertainment	2,200.000	2.766.500
4.	Woolworth Specialty	1.811.000	1,788,000
5.	Melville Specialty	1.737.200	2.577.700
6.	Mervyn's	1,425,168	475,056
7	The Gap	1 100 000	690 000
8.	Payless ShoeSource	840.000	728,000
9	U.S Shoe	800.000	912 063
10.	Petrie	750.000	500.000

Source Company reports/*Chain Store Age Executive* estimates

DRUG STORES
New Stores

Rank	Company	1991	1990
1.	Rite Aid Corporation	160	149
2.	Walgreen	100	112
3.	Pay Less Drug Stores NW	86	40
4.	Phar-Mor	70	72
5.	CVS	49	422
6.	Eckerd	33	50
7.	Drug Emporium	28	29
8.	Thrifty	21	26
9.	Thrift Drug	20	22
10.	Arbor Drug	15	12

Source: Company reports/*Chain Store Age Executive* estimates

HOME CENTERS
New Stores

Rank	Company	1991	1990
1.	Home Depot	30	27
2.	Lowe's	23	5
3.	Builders Square	14	10
4.	Pergament	10	4
5.	Hechinger	9	9
6.	Home Club	8	8
7.	Lanoga	6	4
8.	Menard's	5	3
9.	Scotty's	5	2
10.	Wolohan Lumber	3	4

Source: Company reports/*Chain Store Age Executive* estimates

DRUG STORES
New Square Footage

Rank	Company	1991	1990
1.	Phar-Mor	4,083,310	4,200,000
2.	Pay Less Drug Stores NW	2,169,000	963,600
3.	Rite Aid Corporation	1,025,000	970,000
4.	Walgreen	970,000	1,086,400
5.	Drug Emporium	700,000	725,000
6.	CVS	421,400	3,629,200
7.	Thrifty	400,000	424,000
8.	Longs	361,000	308,000
9.	Eckerd	307,560	450,000
10.	American Drug Stores	213,760	299,264

Source: Company reports/*Chain Store Age Executive* estimates

HOME CENTERS
New Square Footage

Rank	Company	1991	1990
1.	Home Depot	2,760,000	2,484,000
2.	Builders Square	1,283,000	800,000
3.	Lowe's	1,120,000	869,659
4.	Home Club	800,000	800,000
5.	Hechinger	750,000	780,000
6.	Menard's	350,000	210,000
7.	Pergament	338,000	240,000
8.	Scotty's	250,000	100,000
9.	Wolohan Lumber	144,000	126,000
10.	Lanoga	42,000	28,000

Source: Company reports/*Chain Store Age Executive* estimates

apparel segment. Of the 225 Foxmoor locations purchased in early 1990, 160 have been converted to other apparel formats.

Rite Aid, the drug store chain, senses it has a winner with its Encore Books division. The 3,500-sq.-ft. stores grew from 48 to 62 units last year, and completion of another 25 units is expected this year. The rapid expansion is taking place primarily in two markets: Connecticut and Long Island, N.Y.

Catching the wave of growth in home office supply retailing, Office Depot is embarked on an extremely aggressive growth strategy. It opened 55 stores in 1990 and more than doubled that in 1991 by opening 122 stores.

Certainly, in the face of the recession and other considerations, many retailers have pared their growth strategies. Dillard's diminished growth continues to be fueled through acquisition. The company acquires underperforming regional chains, like Ivey's in North Carolina or Diamond's in Arizona, and quickly converts the units to fully integrate into the Dillard's model.

LADIES FASHIONS
DRESSING ROOMS

In many cities and towns, Winn-Dixie is closing one or two older stores to make way for a larger store that provides more departments and one-stop shopping.

A&P says its new store development will proceed at a slower pace because of the inability of developers to obtain financing for shopping center locations. A&P expects to resume its previous development pace as the building industry revives.

J.C. Penney is building relatively few new stores. Capital expenditures are principally related to the cost of updating existing stores.

The breakneck growth which has characterized Blockbuster Video over the past several years has begun to stabilize. Capital expenditures were $252 million in 1990. They declined slightly to $250 million in 1991. ■

SALES GAIN, BUT NOT ENOUGH

OCTOBER UPTICK LAID TO BOUT OF COLD WEATHER

A late month sales pickup, primarily related to a cold weather snap that followed unseasonably warm weather in mid-October, turned what was shaping up to be an outright dismal performance for the nation's top retailers into simply sluggish performance.

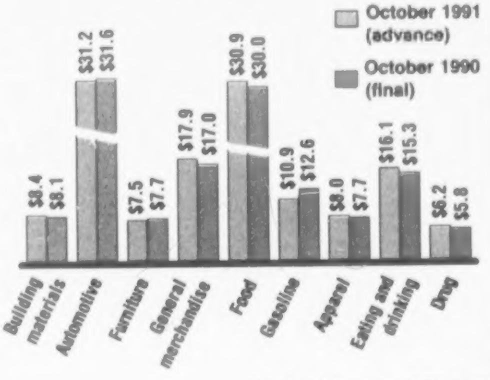
As measured by the Misubishi Bank retail chain store sales index, same store retail sales posted a 3.7% gain in October. Discounters and other retailers that appeal to price conscious consumers claimed the decisive edge in the race for the consumer's pocketbook.

Still, the retail industry appears hopeful that consumers will step up their purchases as the Christmas shopping season unfolds. A survey compiled by Mitsubishi's economic research department in New York found 57% of retailers expecting that Christmas sales will be better this year than last year. Discounters and department store executives were generally more upbeat than most other retail executives.

Of course, as one major retailer observed, "Last Christmas was very, very slow. So *better* is still not very good."

OCTOBER SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	October '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$3,670,000	+35.0	+ 9.0	$30,250,000	+36.0	+10.0
Kmart	2,480,000	+ 6.0	+ 1.7	24,020,000	+ 7.6	+ 3.6
Sears	2,570,000	+ 0.5	+ 0.4	23,980,000	− 1.7	− 2.1
Penney	1,361,000	− 2.1	− 2.9	10,826,000	− 2.5	− 3.7
Dayton Hudson	1,270,000	+12.0	+ 6.0	10,680,000	+10.0	+ 2.6
May	767,500	+ 8.7	+ 0.6	7,246,400	+ 7.8	− 0.3
Melville[1]	723,279	+ 5.0	+ 1.3	7,522,116	+16.9	+ 0.5
Walgreen[5]	576,590	+10.7	+ 6.9	5,544,851	+11.5	+ 7.3
Woolworth	391,000	+ 4.2	− 0.4	3,973,000	+ 3.1	− 1.5
The Limited	442,800	+16.0	+ 4.0	4,093,000	+17.0	+ 3.0
Mercantile	181,000	− 2.9	− 3.7	1,650,000	+ 3.7	+ 1.8
Circuit City[2]	206,100	+19.0	+ 1.0	N/R	N/R	N/R
The Gap	211,000	+36.0	+17.0	1,720,000	+31.0	+13.0
Rose's	86,463	N/R	− 9.1	992,006	N/R	+ 0.8
Neiman-Marcus Group[3]	142,400	+ 4.6	+ 0.5	434,300	+ 1.9	+ 2.1
Venture Stores	107,500	+ 0.7	+ 0.1	1,000,500	+ 6.3	+ 3.3
Edison Bros.	96,900	+ 4.4	N/R	944,600	+13.6	N/R
Jamesway	72,900	N/C	+ 9.0	600,600	− 2.0	+ 1.0
Charming Shoppes	73,200	+12.0	+ 2.0	724,700	+15.0	+ 7.0
Ross	59,000	+13.0	+ 2.0	647,000	+17.0	+ 2.0
Dollar General	66,100	+16.9	+12.3	508,500	+13.7	+ 9.0
Best Buy[4]	66,000	+40.0	+17.0	501,000	+30.0	+11.0
Gottschalks	22,191	+ 3.5	+ 3.2	203,642	+13.6	+ 6.5
Claire's	16,180	−10.0	−10.0	173,447	+ 4.0	− 8.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R = not reported N/C = no change

Source: Company reports

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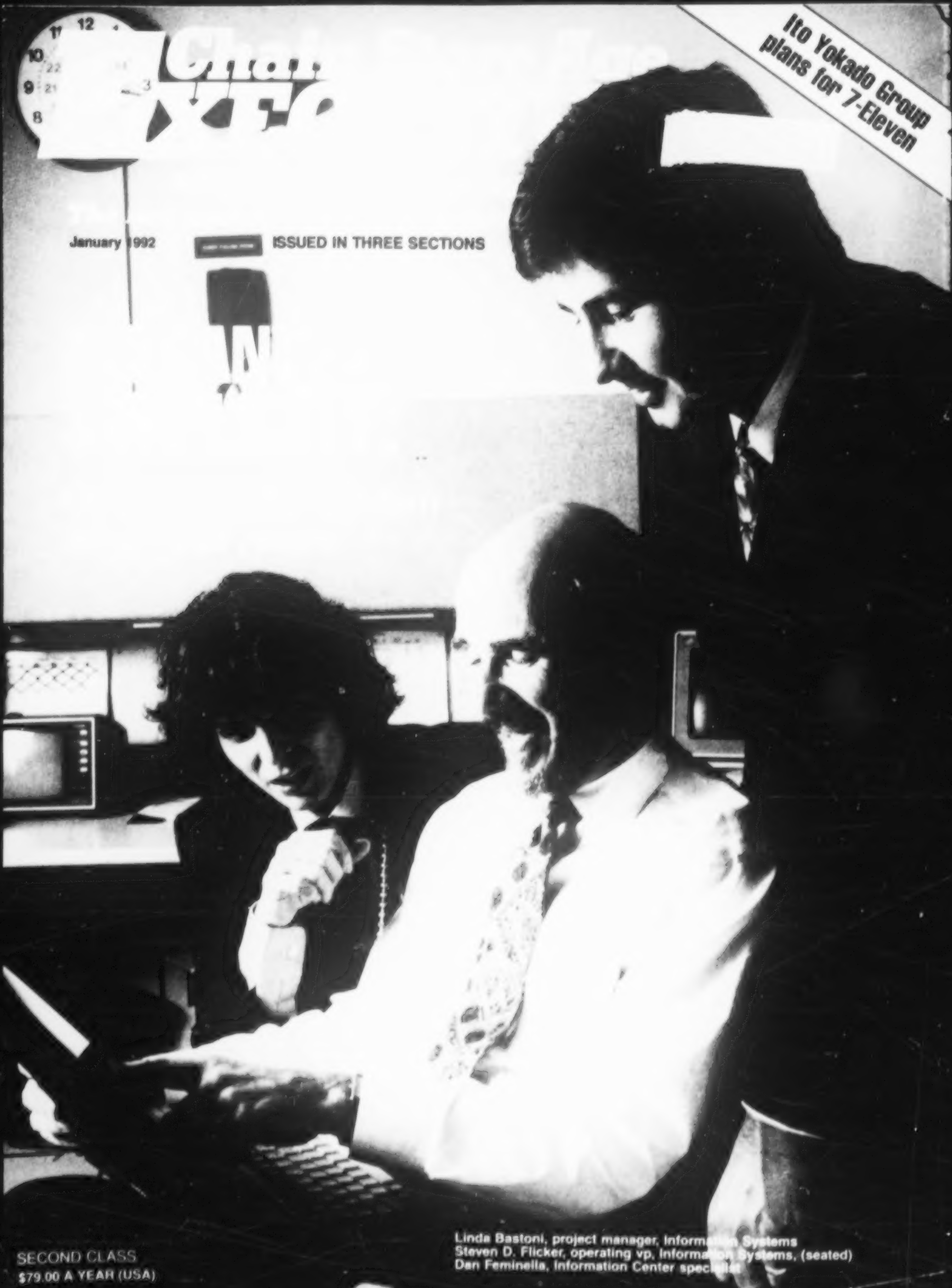
January 1992

ISSUED IN THREE SECTIONS

Ito Yokado Group plans for 7-Eleven



Linda Bastoni, project manager, Information Systems
Steven D. Flicker, operating vp, Information Systems, (seated)
Dan Feminella, Information Center specialist

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Vol. 68, No. 1/January 1992

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***Masatoshi Ito**, left, meets with Chain Store Age Executive editor Murray Forseter, center, and an interpreter.*

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UNIVERSITY
TOWN CENTER

Many Ohio-based developers are *returning to building in the state, such as Edward J. DeBartolo Corp.'s University Town Center in Kent.*

BUCKING TRENDS IN THE BUCKEYE STATE

OHIO'S STABILITY AND PROSPERITY ATTRACTS DEVELOPERS

If anyone told an Ohio retailer or developer 10 years ago to be grateful for the collapse of the Rust Belt, he or she would have been laughed off. The changes in the steel industry brought hard times to many areas in the state.

Now, with most of the country mired in recession, Ohio is diversified, stable, and feeling fewer of the shocks of the national downturn.

"Ohio had its depression much earlier. We're not unaffected [by the downturn], but the situation is not as desperate as it was when we lost the steel industry," says John Kramer, executive vp at Pittsburgh-based J. J. Gumberg.

The collapse forced Ohio to diversify. Most development occurred in the later part of the 1980s, when recovery was assured. But the earlier slowdown in building had its benefits.

"The reason Ohio has not been as affected is that we were not overbuilt. We have such tough zoning, and a shortage of large parcels of land, that new tenants shied away," says Hal Reisenfeld, president of Beachwood, Ohio-based Reisenfeld & Co.

This has kept vacancy levels down at regional malls throughout the state, with only a few exceptions. Quality strip centers, too, are holding up fairly well.

"We've seen very little rent reductions, and lease renewals are being done at increased rents," says Marsha Roush, leasing manager for Roslyn, N.Y.-based Kimco.

Cincinnati: The Cincinnati metro area has benefited from corporate relocation both to the city itself and to nearby Northern Kentucky. The vacancy rate is fairly stable, with regional mall levels skewed by the large, and largely empty, Forest Fair Mall.

Change is coming for Forest Fair. The center will receive a $25 million rehab and renovation to prepare for a retenanting effort under new managers Parkfield Inc. (a partnership of Boorn Bennett Johnson Partnerships and Marquette Partners).

Sales at existing properties are holding up fine, which is just as well—there is little room for a new regional mall, says Jerry Sink, director of retail asset management for Atlanta-based Equitable Real Estate. The firm owns the recently renovated Tri-County Mall in the city.

"Cincinnati's retail is pretty much developed," Sink says.

Redevelopment is another story. COMPASS/Retail, a division of Equitable, is planning to renovate and retenant its 400,000-sq.-ft. Kenwood Mall. How to remerchandise the center, which is across the street from the newer 1.1 million-sq.-ft. Kenwood Towne Centre, is the major question.

"We've taken a very thorough approach to the redevelopment. We want to do it right. Kenwood is on one of the best retail corners in the state. Our question is how to reposition it," says Gary Farmer, vp-development for COMPASS/Retail.

Columbus: Even strong markets, with education, government and service driving the economy, can be overbuilt. Some areas are flirting with oversaturation.

"Some areas definitely have strips where there is more than sufficient retail," says George Hadler, vp of locally-based Hadler Co. One example is Dublin.

However, on the city's northeast side, NP Limited Partnership and Forbes/Cohen have announced plans

Ohio Developments

Beerman Realty:
North Park Center, 275,000 sq. ft., Huber Heights: opening fall 1992

Boorn Bennett Johnson Partnerships/Marquette Partners:
Forest Fair Mall, 1,400,000 sq. ft., Cincinnati: plans underway for $25 million renovation and retenanting

The Cafaro Co.:
Ashtabula Mall, 660,000 sq. ft., Ashtabula: opening fall 1992
Howland Commons, 300,000 sq. ft., Howland: planned for 1992
McKinley Centre, 100,000 sq. ft., Youngstown: final openings set for spring 1992

Don M. Casto:
Delaware Community Plaza, 200,000 sq. ft., Delaware: construction begins spring 1992, with first openings fall 1992
Upper Valley Plaza, 120,000 sq. ft., Springfield: construction begins in spring for late 1992 opening

The Edward J. DeBartolo Corp.:
Great Northern Mall, 1,100,000 sq. ft., North Olmstead (Cleveland): construction underway on renovation and expansion for late 1992 completion. Managed by DeBartolo for CGR Advisors
SouthPark Center, 1,300,000 sq. ft., Strongsville: in approval process. Joint venture with Richard and David Jacobs Group
Summit Mall, 957,000 sq. ft., Akron: plans under way for renovation and expansion for 1993 completion
University Town Center, 680,000 sq. ft., Kent: in approval process for possible 1994 opening
Woodville Mall, 1,018,000 sq. ft., Toledo: expansion planned for 1993 completion

Developers Diversified:
To be named, 225,000 sq. ft., Stow: in planning stages
To be named, 300,000 sq. ft., Macedonia: opening January 1993

Equitable Real Estate:
Tri-County Mall, 1,433 000 sq. ft., Cincinnati: McAlpin's joining center in August. Managed by Kravco.
Kenwood Mall, 365,000 sq. ft., Cincinnati: plans underway for renovation/expansion

Forest City Management:
Chapel Hill Mall, 980,000 sq. ft., Akron: partial renovation to reopen late 1992, with plans under way for major expansion in 1994

The Glimcher Co.:
Mall at Fairfield Commons, 1,000,000 sq. ft., Dayton: construction continuing for spring 1993 opening

Glimcher Group:
Elmhurst Plaza, 130,000 sq. ft., Warren: renovation to be completed late spring 1992

J. J. Gumberg:
Heritage Village Square, 250,000 sq. ft., New Philadelphia: redevelopment ongoing
Liberty Plaza, 400,000 sq. ft., Youngstown: plans underway for expansion to be completed late 1992
Springfield Square Mall, 300,000 sq. ft., Mansfield: Phase II to be completed end of 1992

JMB Retail Properties:
Dayton Mall, 1,100,000 sq. ft., Dayton: plans underway for expansion
The Mall at Sawmill Place, 1,000,000 sq. ft., Columbus: awaiting approvals from EPA. Opening planned for 1993. Joint venture with Edward J. DeBartolo Corp.

NP Limited Partnership/Forbes Cohen Properties:
Polaris Mall, 1,500,000 sq. ft., Columbus: groundbreaking set for 1993 for a 1995/96 opening

Paran Management:
Memphis/Fulton Plaza, 120,000 sq. ft., Old Brooklyn: renovation to be completed spring 1992
The Orchard, 90,000 sq. ft., Hudson: renovation to be completed spring 1992

The Rouse Co.:
Franklin Park Mall, 1,026,000 sq. ft., Toledo: renovation and expansion to be completed summer 1993

to develop a 1.5 million-sq.-ft. regional mall as part of the Polaris mixed-use complex being planned.

Other parts of the city, particularly toward the west, do still need some development, and regional mall builders have been vying to supply it. Chicago-based JMB Retail Properties and the Edward J. DeBartolo Corp. are planning to open the Mall at Sawmill Place in 1993, if environmental approvals come in on time.

Cleveland: Two words suffice: Wal-Mart's coming. In areas where they aren't looking, Kmart and Target are looking to open or expand.

There should be sufficient dollars in the market for all three stores, says Emerick Corsi, vp-commercial development of locally-based Forest City Development.

"Fifteen years ago, Cleveland had Kmart, Zayre, Woolworth and W.T. Grant. Now that's down to Kmart and Hill's," he says.

The strength of the market continues to impress. While little new development is taking place outside the Wal-Mart/Kmart axis, retailers such as JoAnn Fabrics attempt to expand in and around the city, which is home to major corporations such as TRW.

While some vacancy exists, "Where the vacancies occur is the secondary, B-type centers," says Arnold Eisenberg, president of Beachwood, Ohio-based Arnold J. Eisenberg Inc.

Overall, the market remains solid, and relatively well-built out.

"There is talk about a new mall, but the opportunities are in infill and rehabs," says Richard Sammer, director of leasing at Cleveland-based Paran Management.

Development also may finally take place southwest of the city in Strongsville. DeBartolo and the Richard and David Jacobs Group (formerly Jacobs, Visconsi, Jacobs) have won the latest round in their battle to build the 1.3 million-sq.-ft. SouthPark Center in the town.

Dayton: Construction continues on the Mall at Fairfield Commons, a 1 million-sq.-ft. regional center that is furthest along in a battle to build in the city's suburbs (*Chain Store Age Executive*, April, 1991).

"Dayton is probably one of the few markets that is undermalled. It has an extremely strong and diverse economic base," including Wright Patterson Air Force Base and various civilian industries that serve it, says Sally Dunker, director of marketing

Vacancy Rates in Selected Ohio Cities (as of July 1991)

	Downtown	Strip Centers	Community Centers	Regional Malls
Akron	20%	11%	NA	5%
Cincinnati	15	18	15%	10
Cleveland	8	8	10	5
Columbus	8	20	18	5
Dayton	15	10	10	5
Toledo	35	20	NA	5

Source: New America Network 1992 Real Estate Planning Guide

***McAlpin's will join the recently** renovated Tri-County Mall in Cincinnati this summer.*

at Columbus-based Glimcher Co., the project's developer. Opening is set for spring 1993.

Meijer also is moving into the market, adding to the value retail mix in the city.

Toledo: Power centers are under construction in and around the city, and Meijer is entering the market.

Existing properties may reflect the real story. Rouse Co. expects moderate sales gains at its Franklin Park Mall, which will complete an expansion in 1993. DeBartolo is expanding its Woodville Mall, also for 1993.

As with most of Ohio, "Our downs aren't as down and our highs aren't as high in Toledo," says Michael Podracky, Rouse vp-group manager.

Elsewhere: Strangely, the problems in the early 1980s resulted in many locally-based developers busying themselves in other parts of the country. Many of these builders are now returning home to renovate and expand older properties, and even to building new ones in selected areas.

That creates a pretty large pool of builders to get busy.

"Look at the top 50 developers in the nation, and see how many are here—not just in Youngstown, but in Cleveland, Columbus and Cincinnati, as well," says John P. Richley, director of operations for Youngstown, Ohio-based Cafaro Co.

Both Cafaro and J. J. Gumberg are renovating centers in Youngstown.

"Youngstown used to be an iron and steel town. Now it's come back, just like Pittsburgh," says Ronald S. Gimple, vp-development, midwest for DeBartolo.

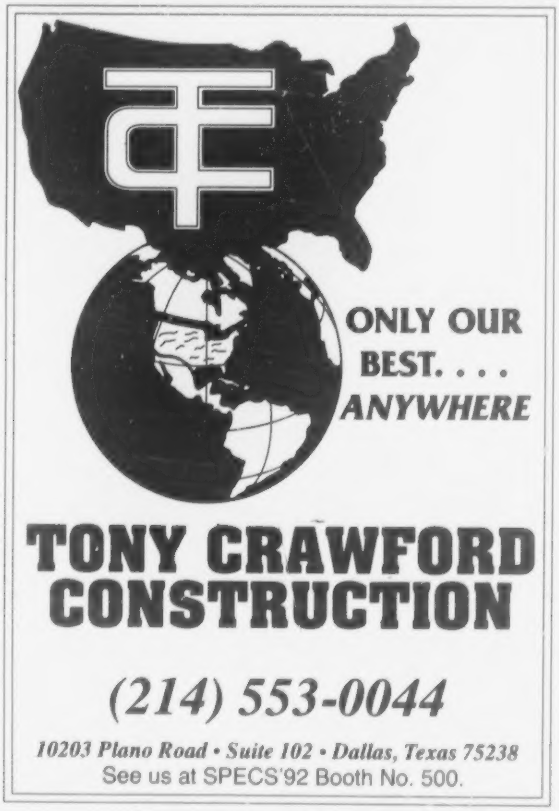
Two major malls are set for renovation and expansion in Akron. DeBartolo is continuing the approval process for its University Town Center in Kent.

Among the new largest projects in the state is Cafaro Co.'s 660,000-sq.-ft. Ashtabula Mall, opening this fall. The project will top out with six anchors and 70 specialty stores.

With so much activity going on now in comparison with much of the country, developers in Ohio are counting their blessings, and the benefits of that downturn 10 years ago. The state is a rare spot of stability in a turbulent environment.

"Ohio never experienced the highs, we don't have the lows right now. It's stable—not hitting home runs, but not striking out, either," Gimple says. ■

—Debra Hazel



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REVENUES

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
CATALOG STORE CHAINS				
J.C. Penney	4,200,000	– 1.1	11,642,000	– 2.0
Sears, Roebuck & Co.	7,659,900	– 2.1	21,936,400	– 2.7
Sharper Image	29,786	– 17.6	85,160	– 23.9
Williams-Sonoma	68,838	+ 7.8	196,084	+ 10.3
DEPARTMENT STORE CHAINS				
Dillard	954,941	+ 9.3	2,714,808	+ 13.6
Gottschalks	69,993	+ 7.3	203,824	+ 13.7
Jacobson's	87,820	– 0.5	266,584	NC
May	2,561,000	+ 8.0	505,700	+ 7.0
Mercantile	583,047	+ 2.1	1,646,692	+ 4.2
Neiman Marcus Group[4]	387,004	+ 2.5	1,744,800	+ 3.3
Nordstrom	687,077	+ 8.2	2,201,764	+ 10.5
Strawbridge & Clothier	211,856	– 8.7	630,246	– 4.1
DISCOUNT STORES				
Caldor	417,859	+ 4.5	1,230,730	+ 6.1
Consolidated	186,231	+ 11.7	520,731	+ 11.8
Dayton Hudson	3,955,000	+ 9.1	10,866,000	+ 10.0
Dollar General	189,739	+ 15.3	511,363	+ 13.3
Family Dollar[4]	257,290	+ 15.5	989,345	+ 13.1
Fred Meyer[2]	615,878	+ 9.5	1,382,720	+ 9.3
Hills	438,773	– 21.3	1,130,450	– 23.0
Jamesway	219,269	+ 0.8	600,648	– 3.3
Kmart	8,050,200	+ 6.4	24,250,700	+ 7.6
Pamida Holdings[2]	174,226	+ 2.4	315,057	+ 1.9
Rose's	326,727	– 5.6	992,039	– 5.7
Service Merchandise	656,437	– 0.2	2,011,941	– 1.0
Value City[4]	146,500	+ 15.7	586,400	+ 9.0
Venture	346,713	+ 2.6	1,000,510	+ 6.3
Wal-Mart	10,736,860	+ 34.2	30,528,791	+ 36.1
SHOE/SPECIALTY CHAINS				
J. Baker	120,565	+ 11.0	356,066	+ 9.3
Genesco*	122,126	+ 2.9	346,439	+ 0.2
Melville	2,300,000	+ 15.0	6,600,000	+ 17.9
Woolworth	2,423,000	– 1.9	6,778,000	+ 0.8
APPAREL CHAINS				
Ann Taylor*	113,838	+ 3.2	326,220	+ 7.8
Banker's Note[2]†	6,601	– 36.0	14,637	– 29.6
Catherines[2]	32,608	+ 14.1	66,046	+ 15.6
Charming Shoppes	248,560	+ 12.9	729,705	+ 15.1
Deb Shops	50,633	– 4.8	149,851	+ 4.2
Designs	45,579	+ 27.9	98,335	+ 22.5
Frederick's of Hollywood[4]	26,144	+ 8.6	114,134	+ 15.8
Gantos	61,023	+ 1.8	180,370	– 1.0
The Gap	702,052	+ 39.9	1,715,408	+ 31.0
Goody's	91,837	+ 32.3	242,931	+ 33.5
Paul Harris*	45,528	– 16.0	139,164	– 12.3
Jay Jacobs†	36,245	+ 18.3	70,120	+ 20.4
The Limited	1,433,412	+ 14.9	4,093,079	+ 16.6
Merry-Go-Round	196,995	+ 22.0	511,115	+ 25.5
Petrie	305,465	+ 5.0	966,727	+ 6.8
OFF-PRICE APPAREL				
50-Off Stores	30,841	+ 65.8	84,585	+ 71.5
Burlington Coat Factory[4]	154,367	+ 5.2	905,857	+ 12.8
Clothestime	62,122	+ 27.9	187,955	+ 23.4
Dress Barn[4]	87,650	+ 16.5	325,413	+ 14.7
Filene's Basement*	129,379	+ 15.9	325,709	+ 15.2
One Price Clothing	31,731	+ 25.0	89,777	+ 10.5
Ross	215,459	+ 16.3	645,436	+ 18.0
S&K	17,044	+ 24.4	50,616	+ 15.2
Syms	71,242	– 1.6	222,945	+ 1.9
TJX	705,269	+ 9.2	1,958,053	+ 13.0
WAREHOUSE WHOLESALE CLUBS				
Costco[4]	1,716,664	+ 27.2	5,215,456	+ 28.5
Office Depot	331,812	+ 39.5	959,799	+ 49.2
Price[4]	1,606,390	+ 30.6	6,755,966	+ 24.8
Staples*	144,498	+ 83.2	360,870	+ 74.4
Warehouse Club*	59,982	– 9.5	186,749	– 6.7

N/A = not applicable because of loss in either current or comparable period
N/C = no change
*before extraordinary items or changes in accounting principles
†continuing operations only
[1] first quarter figures

EARNINGS

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
CATALOG STORE CHAINS				
J.C. Penney	116,000	– 13.4	227,000	– 38.8
Sears, Roebuck & Co.	54,400	– 39.0	197,200	+ 21.9
Sharper Image	(1,554)	NA	(7,475)	NA
Williams-Sonoma	(1,559)	NA	(1,810)	NA
DEPARTMENT STORE CHAINS				
Dillard	39,048	+ 20.7	2,714,808	+ 13.6
Gottschalks	394	+ 146.3	1,465	+ 196.0
Jacobson's	1,156	+ 317.3	387	NA
May	91,000	+ 1.1	249,000	+ 0.4
Mercantile	30,457	– 9.3	72,966	– 7.6
Neiman Marcus Group[4]	(8,088)	NA	9,289	– 67.1
Nordstrom	19,430	– 4.9	94,956	+ 36.6
Strawbridge & Clothier	(1,543)	NA	(4,723)	NA
DISCOUNT STORES				
Caldor	(3,861)	NA	(8,120)	NA
Consolidated	1,830	+ 291.0	3,173	NA
Dayton Hudson	35,000	– 40.0	109,000	– 38.4
Dollar General	4,282	+ 54.9	9,210	+ 61.5
Family Dollar[4]	8,253	+ 45.1	40,242	+ 40.1
Fred Meyer[2]	11,536	+ 33.7	19,558	+ 32.4
Hills	10,931	NA	(14,408)	NA
Jamesway	380	NA	(3,717)	NA
Kmart	109,500	+ 3.4	379,800	+ 7.3
Pamida Holdings[2]	(1,307)	NA	(3,265)	NA
Rose's	(2,539)	NA	(6,815)	NA
Service Merchandise	(4,730)	NA	(12,590)	NA
Value City[4]	2,700	NA	21,800	+ 75.8
Venture	5,446	+ 34.8	13,101	+ 61.0
Wal-Mart	353,200	+ 24.9	1,006,046	+ 24.3
SHOE/SPECIALTY CHAINS				
J. Baker	2,512	+ 23.1	5,549	– 23.8
Genesco*	1,544	+ 60.3	(1,012)	NA
Melville	55,600	– 13.5	113,000	– 24.8
Woolworth	41,000	– 48.8	75,000	– 55.4
APPAREL CHAINS				
Ann Taylor*	3,618	– 3.1	6,461	+ 253.3
Banker's Note[2]†	(2,350)	NA	(2,309)	NA
Catherines[2]	1,124	+ 836.7	2,678	+ 962.7
Charming Shoppes	11,843	+ 38.0	38,607	+ 49.6
Deb Shops	384	– 79.9	3,617	– 42.5
Designs	3,004	+ 84.5	1,751	+ 674.8
Frederick's of Hollywood[4]	1,236	+ 15.9	5,197	+ 22.5
Gantos	224	NA	(2,278)	NA
The Gap	70,796	+ 48.3	145,931	+ 65.8
Goody's	2,809	+ 481.6	5,623	+ 553.8
Paul Harris*	(2,001)	NA	(7,283)	NA
Jay Jacobs†	769	– 14.5	952	– 53.4
The Limited	72,872	– 14.2	202,957	– 10.3
Merry-Go-Round	9,588	– 16.2	25,211	+ 7.1
Petrie	(4,257)	NA	9,254	+ 117.5
OFF-PRICE APPAREL				
50-Off Stores	1,406	+ 306.4	3,859	+ 252.7
Burlington Coat Factory[4]	24,742	+ 2.9	950	NA
Clothestime	1,355	NA	4,111	+ 24,082.3
Dress Barn[4]	4,717	+ 11.5	14,953	+ 4.0
Filene's Basement*	7,354	+ 54.3	12,391	+ 75.8
One Price Clothing	344	+ 123.1	2,212	– 24.1
Ross	3,293	+ 1,498.5	14,055	+ 107.1
S&K	388	+ 1,543.2	1,475	+ 50.1
Syms	2,698	– 27.4	9,035	– 4.8
TJX	27,431	– 8.1	56,080	– 4.5
WAREHOUSE WHOLESALE CLUBS				
Costco[4]	32,405	+ 47.9	84,788	+ 72.3
Office Depot	6,247	+ 121.0	7,710	– 12.4
Price[4]	34,047	+ 6.8	134,071	+ 6.9
Staples*	2,606	+ 104.1	2,008	– 39.8
Warehouse Club*	43	– 23.2	137	NA

[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures
Source: Company reports

REVENUES

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
HARD LINES CHAINS				
Best Buy[2]*	193,611	+ 27.2	359,190	+ 29.1
Blockbuster Entertainment	229,735	+ 39.0	616,628	+ 36.0
Circuit City[2]*	634,822	+ 15.3	1,192,876	+ 14.6
Claire's	56,997	– 2.0	173,444	+ 0.1
Fabri-Centers of America	120,494	+ 25.2	310,374	+ 23.1
Good Guys[4]	105,171	+ 33.6	425,689	+ 45.1
Hancock Fabrics	101,596	+ 0.8	293,148	+ 3.8
Highland[2]*	135,609	– 31.0	305,710	– 19.9
House of Fabrics	120,494	+ 25.2	310,374	+ 23.1
Lechters	54,800	+ 25.8	142,467	+ 25.7
Michaels	103,637	+ 21.3	266,704	+ 16.7
Oshman's[2]*	76,988	– 6.5	138,275	– 9.3
Pep Boys	261,233	+ 16.2	758,084	+ 12.8
Pier 1 Imports[2]	191,657	+ 28.1	394,045	+ 36.8
Stor Furnishings Intl.[2]	14,314	– 22.1	35,075	– 14.6
Tandy[1]*	1,051,982	– 2.9	1,051,982	– 2.9
Tiffany	126,401	+ 11.6	342,878	+ 9.3
Toys "R" Us	1,181,673	+ 12.3	3,263,507	+ 10.2
SUPERMARKETS				
Albertsons	2,129,775	+ 5.4	6,481,801	+ 6.2
American	4,939,397	– 9.3	5,606,350	– 13.0
A&P	2,652,686	+ 1.9	6,243,380	+ 3.9
Bruno's[1]	615,951	+ 5.0	615,951	+ 5.0
Delchamps[1]	233,844	– 7.5	233,844	– 7.5
Food Lion	1,502,260	+ 13.9	4,415,815	+ 16.4
Giant Food	773,843	+ 2.2	2,338,111	+ 2.1
Hannaford Bros.	523,874	+ 18.7	1,502,085	+ 19.8
Kroger*	6,228,363	+ 4.3	16,221,881	+ 6.2
Marsh[2]	347,724	+ 3.4	612,066	+ 3.9
Quality Food	93,652	+ 12.1	268,396	+ 14.6
Safeway*	3,537,200	+ 2.1	10,457,400	+ 2.2
Smith's Food & Drug	544,026	+ 6.6	1,623,955	+ 8.3
Village Super Market[4]	189,658	+ 2.8	686,002	+ 0.7
Vons*	1,636,500	– 0.1	4,110,600	+ 0.9
Weis Markets*	316,612	+ 1.7	961,073	+ 1.9
Winn-Dixie[1]	2,333,880	+ 2.2	2,333,880	+ 2.2
CONVENIENCE STORES				
Circle K[1]*	759,951	– 14.2	759,951	– 14.2
National Convenience[1]	266,790	– 8.7	266,790	– 8.7
Southland*	2,150,332	– 4.7	6,162,897	– 2.9
Uni-Marts[4]	61,078	– 7.5	257,576	+ 6.1
DRUG STORES				
Arbor[4]	104,518	+ 17.7	405,899	+ 18.9
Big B	108,425	+ 5.1	347,924	+ 6.3
Drug Emporium[2]	184,911	+ 25.6	363,654	+ 26.1
Fay's*	212,610	+ 27.7	597,178	+ 23.9
Genovese*	97,493	+ 4.3	330,955	+ 3.8
Longs	571,318	+ 2.6	1,717,403	+ 3.9
Revco[1]	438,567	+ 7.5	438,567	+ 7.5
Rite Aid[2]	900,674	+ 9.0	1,808,072	+ 9.1
Walgreen[4]*	1,667,318	+ 11.7	6,733,044	+ 11.3
HOME CENTERS				
Grossman	230,717	+ 0.8	627,118	– 0.3
Hechinger	400,571	+ 14.8	1,250,056	+ 15.4
Home Depot	1,298,277	+ 38.6	3,837,959	+ 36.7
Lowe's	790,274	+ 11.6	2,346,634	+ 5.2
Wolohan Lumber	90,759	+ 5.0	233,795	+ 2.6
NON-STORE RETAILERS				
Home Shopping Network[4]	256,400	+ 4.8	1,078,500	– 23.4
Lands' End*	164,038	+ 12.8	411,950	+ 10.0
Lillian Vernon[2]	26,668	+ 4.4	50,728	– 8.7
Spiegel	399,197	– 6.3	1,263,171	+ 3.6

EARNINGS

	3rd qtr. (000 omitted)	% change	YTD (000 omitted)	% change
HARD LINES CHAINS				
Best Buy[2]*	1,767	+ 109.6	2,172	NA
Blockbuster Entertainment	27,353	+ 42.6	64,653	+ 36.2
Circuit City[2]*	17,365	+ 2.5	25,386	– 7.5
Claire's	(3,108)	NA	(1,758)	NA
Fabri-Centers of America	4,513	+ 52.4	5,556	+ 128.5
Good Guys[4]	2,247	+ 68.2	10,985	+ 49.1
Hancock Fabrics	6,331	– 13.4	18,868	– 3.9
Highland[2]*	(5,137)	NA	(17,008)	NA
House of Fabrics	4,513	+ 52.4	5,556	+ 128.5
Lechters	2,367	+ 44.7	3,337	+ 43.7
Michaels	1,646	+ 184.8	3,124	+ 200.7
Oshmans[2]*	(1,611)	NA	(3,030)	NA
Pep Boys	10,747	+ 29.7	29,286	– 5.1
Pier 1 Imports[2]	5,417	+ 110.9	17,054	+ 65.5
Stor Furnishings Intl.[2]	(2,053)	NA	(3,814)	NA
Tandy[1]*	41,833	– 18.8	41,833	– 18.8
Tiffany	8,205	– 9.4	20,140	– 6.7
Toys "R" Us	32,117	+ 11.8	77,947	– 11.9
SUPERMARKETS				
Albertsons	59,519	+ 6.6	176,861	+ 10.6
American	28,931	– 6.4	181,280	+ 88.1
A&P	14,480	– 60.1	59,681	– 42.0
Bruno's[1]	12,811	– 16.7	12,811	– 16.7
Delchamps[1]	440	– 81.4	440	– 81.4
Food Lion	50,912	+ 25.4	144,408	+ 21.8
Giant Food	14,201	– 43.0	62,521	– 21.0
Hannaford Bros.	12,574	+ 9.3	32,637	– 2.6
Kroger*	16,563	+ 346.6	59,577	+ 285.4
Marsh[2]	3,796	– 6.5	7,202	– 3.1
Quality Food	5,006	+ 27.5	13,863	+ 30.3
Safeway*	53,000	+ 154.8	115,300	+ 94.1
Smith's Food & Drug	12,228	+ 41.9	33,478	+ 32.4
Village Super Market[4]	807	– 21.3	1,908	– 55.6
Vons*	18,100	– 35.1	46,600	+ 45.6
Weis Markets*	19,942	– 7.6	60,174	– 2.5
Winn-Dixie[1]	26,654	+ 9.3	26,654	+ 9.3
CONVENIENCE STORES				
Circle K[1]*	6,385	NA	6,385	NA
National Convenience[1]	(3,105)	NA	(3,105)	NA
Southland*	5,837	NA	(40,151)	NA
Uni-Marts[4]	956	– 10.3	2,484	– 13.0
DRUG STORES				
Arbor[4]	3,477	+ 29.8	13,053	+ 18.6
Big B	398	NA	3,279	NA
Drug Emporium[2]	(2,727)	NA	(1,732)	NA
Fay's*	1,057	– 58.9	4,141	– 43.3
Genovese*	1,310	+ 33.3	3,986	+ 53.7
Longs	11,484	– 4.0	39,764	– 6.3
Revco[1]	(13,995)	NA	(13,995)	NA
Rite Aid[2]	25,088	+ 16.6	53,996	+ 15.6
Walgreen[4]*	46,064	+ 14.0	199,083	+ 14.0
HOME CENTERS				
Grossman	5,686	– 15.9	7,872	+ 40.8
Hechinger	6,536	+ 33.1	27,555	+ 14.3
Home Depot	58,385	+ 61.7	181,501	+ 48.8
Lowe's	12,992	– 7.7	49,752	– 24.6
Wolohan Lumber	3,373	– 14.7	7,564	– 16.5
NON-STORE RETAILERS				
Home Shopping Network[4]	(1,100)	NA	(8,900)	NA
Lands' End*	5,764	+ 157.6	8,369	+ 270.5
Lillian Vernon[2]	367	+ 52.3	(1,378)	NA
Spiegel	1,556	– 84.6	3,958	– 84.5

N/A = not applicable because of loss in either current or comparable period
N/C = no change
*before extraordinary items or changes in accounting principles
†continuing operations only
[1] first quarter figures
[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures
Source: Company reports

CALENDAR PENALTY HURTS NOVEMBER SALES

RETAILERS PREDICT A SLUGGISH CHRISTMAS

Despite price cutting to encourage buying over the Thanksgiving weekend, November retail sales reports were hurt by a Thanksgiving that occurred later this year than last year.

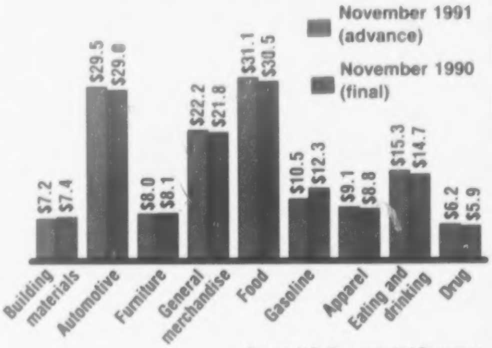
Kmart, in particular, was hurt by the calendar since its reporting period ended on the Wednesday before Thanksgiving. Kmart's comparable store sales were down 2.1% in the month, but would have been up 0.6% if its reporting period had included the two sales days after Thanksgiving, according to Michael P. Niemira, vp and economist, Mitsubishi Bank.

Sears, Roebuck posted a 2% growth in comparable store sales. But the sales period may have ended too quickly to gauge the impact of Sears' sole television sponsorship of the film "E.T." on Thanksgiving night, which had the largest viewership of any network movie in the last five years.

Nonetheless, retailers are being cautious about Christmas. According to a snapshot survey compiled by Mitsubishi Bank, more than two-thirds of retailers think that industry sales this year will be no stronger than last year.

NOVEMBER SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	November '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$4,469,000	+39.0	+13.0	$34,717,000	+36.0	+10.0
Kmart	2,967,414	+ 3.2	− 2.1	26,985,648	+ 7.1	+ 2.9
Sears	3,125,373	+ 0.8	+ 2.0	27,101,301	− 1.4	− 1.7
Penney	1,623,000	+ 1.7	+ 0.7	12,628,000	− 1.9	− 2.7
Dayton Hudson	1,590,000	+ 2.7	− 3.6	12,270,000	+ 9.1	+ 1.8
May	991,100	− 1.7	− 5.4	8,237,400	+ 6.5	− 1.0
Melville[1]	901,370	+ 1.7	+ 1.1	8,423,634	+15.1	+ 0.3
Walgreen[5]	601,770	+11.0	+ 7.6	6,143,028	+11.4	+ 7.5
Woolworth	472,000	− 0.9	− 5.4	4,445,000	+ 2.6	− 2.9
The Limited	576,700	+13.0	N/C	4,670,000	+16.0	+ 3.0
Mercantile	243,000	− 4.1	− 5.4	1,890,000	+ 2.6	+ 0.8
Circuit City[2]	274,600	+20.0	+ 4.0	N/R	N/R	N/R
The Gap	223,000	+24.0	+ 8.0	1,938,000	+30.0	+12.0
Rose's	162,829	N/R	− 8.0	1,154,868	N/R	− 0.5
Neiman-Marcus Group[3]	166,100	+ 0.1	− 4.0	600,200	+ 1.4	− 2.6
Venture Stores	162,200	+ 6.0	+ 0.6	1,162,700	+ 6.3	+ 2.9
Edison Bros.	122,700	+ 3.0	N/R	1,070,000	+12.3	N/R
Jamesway	89,700	−10.0	− 6.0	690,400	− 5.0	N/C
Charming Shoppes	90,600	+13.0	+ 3.0	815,300	+15.0	+ 6.0
Ross	89,000	+ 3.0	− 4.0	737,000	+16.0	+ 1.0
Value City	60,200	+11.5	+ 4.5	219,100	+18.1	+14.5
Dollar General	70,200	+ 9.9	+ 5.8	582,600	+12.9	+ 8.3
Best Buy[4]	88,000	+35.0	+ 5.0	590,000	+31.0	+10.0
Gottschalks	33,686	− 1.2	− 1.6	237,510	+11.3	+ 5.2
Claire's	20,572	−14.0	−20.0	194,019	+ 2.0	−10.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R = not reported N/C = no change

Source: Company reports

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The Thirteenth Annual
Survey of
Loss Prevention Executives

The Ernst & Young/ IMRA Survey of Retail Loss Prevention Trends

Thought Leadership Series™

IMRA
International Mass Retail Association

ERNST & YOUNG

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DEAR RETAILER:

With this report, Ernst & Young has completed its thirteenth year of surveying loss prevention in the retail industry. The co-sponsor is the International Mass Retail Association, and for the second straight year the publisher is Chain Store Age Executive.

A total of 155 companies participated in this survey. There were 23 department stores, 11 drug chains, 22 general merchandise/mass merchants, 21 specialty apparel retailers, 22 specialty hardlines companies, and 19 supermarkets. In addition, there were 37 companies from "other" segments, including convenience stores and mail order companies. Fifty-three companies had annual revenues of less than $100 million, 41 had revenues of $100-$399 million, 25 had revenues of $400-$999 million, and 36 had revenues of $1 billion or more.

These retailers supplied us with information on shrinkage and apprehensions, loss prevention expenses and capital expenditures, physical inventory counting, and the most and least effective security devices. In addition, they provided information on shrink reduction incentive programs and pre-employment honesty testing.

The report contains sections on each of the six segments mentioned above, plus a section on overall findings. In addition, we have summarized our findings on shrinkage incentive programs and pre-employment honesty testing.

We would like to thank the advertising sponsors, 3M Safety and Security System Division and Washington Inventory Service. We also thank the National Loss Prevention Bureau, Ltd. for its assistance in the survey process. Most importantly, we express our gratitude to the retailers who took the time to participate in this survey.

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HIGHLIGHTS & METHODOLOGY[*]

In 1990, our participants lost an average of $20.1 million at retail due to shrinkage, or 2.08 percent of sales. This is seven percent lower than the 1989 "at retail" shrinkage figure of 2.23 percent. Shrinkage at cost in 1990 was 1.58 percent of sales.

However, retailers failed to meet their shrinkage goals of 1.84 percent at retail and 1.15 percent at cost. Plus, shrinkage in real dollars at retail increased by eight percent in 1990. The total dollars lost to shrinkage was $1.4 billion at retail, plus another $334 million at cost.

To prevent shrinkage, retailers spent about the same as they did in 1989: 0.34 percent of sales. The average expenses per company were $2.8 million, and 63 percent of these expenses were associated with personnel.

The retailers apprehended 436,000 people in 1990, seven percent of whom were employees. However, 38 percent of all dollars recovered were from apprehended employees. In addition, $241,000 at retail was reportedly stolen by employees per company but not recovered.

To combat the shrinkage problem associated with employees, almost half the retailers are turning to pre-employment honesty testing. In 1990, the companies that used these tests identified 21 percent of the tested applicants as "high risk."

Loss Prevention Stats at a Glance

	Average Shrinkage as a Percentage of Sales				Average Loss Prevention Expenses as a Percent of Sales	Average Value of Merchandise Recovered at Retail per Apprehension in 1990 from	
	At Retail		At Cost				
	1990	1989	1990	1989	1990	Employees	Customers
All general merchandise participants	2.08%	2.23%	1.58%	1.73%	0.34%	$730	$184
Department stores	1.87	2.01	-	-	0.47	609	212
Drug chains	1.78	1.75	2.16	1.77	0.21	390	89
General merchandise mass merchants	1.80	2.16	1.06	1.13	0.36	331	44
Specialty apparel	2.00	1.89	2.25	2.68	0.30	815	131
Specialty hardlines	1.41	1.41	0.73	0.70	0.35	1,178	213
Supermarkets	0.81	0.75	0.97	1.03	0.24	166	111

Retailers also favor employee awareness programs. These programs were identified as both the most utilized and most effective security devices.

The device most likely to be implemented in the future is exception monitoring software.

Physical inventories—particularly cycle counts—also correlate with improved shrinkage. Those companies that performed cycle counts in addition to complete physical inventories had a shrinkage of 1.96 percent at retail vs. 2.19

---

[*] *The overall findings reported pertain to the general merchandise participants. Accordingly, the responses of the supermarket participants were excluded. A separate analysis of the supermarket industry appears beginning on page 46.*

percent for those that did not. Those retailers who performed cycle counts at cost had a shrinkage of 1.05 percent vs 2.29 percent for those who did not.

As you read this survey, please keep the following points in mind:

- The pool of retailers who participate in this survey changes from year to year. Therefore, it is not accarate to compare data published in this report to data presented in past surveys.
- Some participants did not answer every question. Therefore, it may not be accurate to compare data in one table to data in another table. Questionnaires that were substantially incomplete were not included.
- Because some of the questions allowed multiple answers and because of rounding, tallied responses do not always total 100 percent.
- The individual participant data is confidential. Survey responses were received and reviewed only by Ernst & Young.

Survey Demographics

		PARTICIPANTS BY1990 SALES VOLUME IN $ MILLIONS				Total 1990 Sales	Average 1990 Sales
	All Participants	Under $100	$100-$399	$400-$999	$1,000 or More		
Total number of survey participants	155	53	41	25	36	$164,130	$1,059
Department stores	23	6	9	2	6	30,821	1,340
Drug chains	11	2	2	1	6	15,440	1,404
General merchandise/mass merchants	22	3	6	3	10	59,642	2,711
Specialty apparel	21	13	4	3	1	5,717	272
Specialty hardlines	22	8	8	5	1	6,901	314
Supermarkets	19	3	3	6	7	27,137	1,428
Other	37	18	9	5	5	18,472	499

LOSS PREVENTION TRENDS IN RETAIL: AN EXECUTIVE OVERVIEW

With their eyes fixed firmly on the bottom line, retailers today are devoting a significant amount of attention to shrinkage.

Retailers have never taken loss lightly, of course. But this year's survey results, which found shrink percentages down, and comments by some of the industry's leading loss prevention executives, suggest companies are now attacking this age-old problem with as much zeal as they ever have before.

Our survey found that 1990 shrinkage at retail was down seven percent, from 2.23 percent as a percent of sales to 2.08 percent. At cost, shrink declined from 1.73 percent to 1.58 percent.

To some, this is surprising. With the economy in decline since late 1990, one might expect shrinkage to be up. But the majority of the executives we spoke with were not surprised. Companies are paying more attention to "bottom-line" functional areas, they say—especially loss prevention.

Our survey found that shrinkage was down in 1990. To some this is surprising. To most executives we spoke with, it was the logical outcome of a greater commitment to loss prevention.

Shrinkage targets To reinforce this commitment, retailers are now setting specific shrinkage goals. Some 74 percent of our participants had a shrinkage target in 1990. At retail, that target was 1.84 percent of sales; at cost it was 1.15 percent.

And if they failed to meet these goals? Most companies investigated the cause of the shrinkage and/or implemented additional controls. But a very large group—some 43 percent—replaced personnel at a store that has not attained the desired shrink percentage.

In some cases, this meant dismissing employees—an action that troubles one loss prevention executive, who feels that this kind of punitive action could actually cause more trouble than it corrects. "It sets up a situation where people might fudge paperwork to cover their tracks," he says.

Most of the executives believe dismissing people is a regrettable but acceptable practice and an encouraging trend. It should certainly be a last resort, they say, and it must be clearly justifiable. But, unpleasant as this practice is, these executives applaud it as yet another demonstration of management's commitment to loss prevention.

An emphasis on people Also good, say the loss prevention executives, is the current shift toward people as a primary weapon in the battle against shrinkage. As our survey found, retailers are spending the majority (63 percent) of their loss prevention budgets on people-related expenses. Moreover, they have identified employee awareness programs as both the most effective and most commonly used loss prevention "device."

"People, especially a retailer's own employees, are now universally considered the most important factor in loss prevention," says Ernst & Young senior adviser Burnett Donoho. "Without the involvement of your people," says the former president of Marshall Field's, "you simply cannot prevent shrink effectively."

One of the most basic manifestations of "people power" is the presence of sales associates on the selling floor. "The floor people," as one loss prevention director puts it, "are your first and probably best line of defense." Beyond this, employee awareness programs are now as fundamental to loss prevention as locks and chains were 20 years ago. "Companies are putting their faith in awareness, and they're right to do it," says Lew Shealy, VP, Loss Prevention for Eckerd Drug. "You get your best return on investment from awareness."

Sandy Katz, VP, Control for Talbot's, concurs, adding that people—particularly the presence of people on the sales floor—are especially critical to all segments of retail. But he is also seeing a rise in the use of technology, especially in smaller stores, like specialty stores.

One of the most basic manifestations of "people power" is the presence of sales associates on the selling floor. "The floor people," as one loss prevention director puts it, "are your first and probably best line of defense."

Focus on the point of sale In retail companies large and small, the point of sale is one of the most difficult-to-police areas—and a prime area of employee theft. For this reason, loss prevention professionals now regard POS systems as security devices, and as such, they are very popular. These systems were the second most frequently used devices, ranking just behind employee awareness programs. Many loss prevention people are now combining closed circuit television cameras with POS systems to monitor transactions and even generate exception reports.

Employee theft Today, much of the focus in loss prevention—especially when it comes to technical advances—is on employee theft. The reason is simple: dishonest employees inflict the heaviest damage in terms of dollars lost. As our survey found, employees accounted for only seven percent of the apprehensions in 1990 but 38 percent of the dollars recovered.

In recent years, some have questioned whether this kind of dramatic statistic is accurate. Perhaps, they suggest, retailers are simply doing a better job of monitoring and accounting for employee theft. But there was no doubt among the executives we spoke with that the greatest "exposure" is in the area of employee theft. "No question," says Shelley Connors, Director, Loss Prevention, for Best Products. "The greater exposure is with employee theft." For this reason, many companies spend the majority of their loss prevention resources on this area.

Of course, retailers cannot overlook the problem of shoplifting. According to our survey, customers accounted for 93 percent of the apprehensions in 1990. The actual dollars in losses cannot be accurately calculated; however, the total shrinkage of our participants was $1.4 billion at retail, and if customers accounted for at least 60 percent of it, we can estimate that shoplifting accounted for approximately $840 million in losses. Compounding the customer problem is the fact that, according to Lew Shealy, it is more expensive to control shoplifting.

Civil recovery is one popular way to address both employee and customer theft. According to the executives we spoke with, the restitution procedure is an effective deterrent, plus it generates revenue. In many cases, civil restitution revenues are funding the loss prevention program. With the retail economy in a continuing slump, a self-supporting functional area is no small thing.

DEPARTMENT STORES

Shrinkage At retail, shrinkage as a percent of sales decreased by seven percent, from 2.01 percent in 1989 to 1.87 percent in 1990. However, shrinkage in real dollars increased by two percent. The average retail dollars lost per department store in 1990 was $23.8 million.

Shrinkage as a percent of sales declined for all revenue groups, with the exception of department stores with revenues of $100-$399 million. Companies with under $100 million in revenue enjoyed a 17 percent decline, the deepest decline in the segment group.

The department stores' targeted shrink percentage was 1.72 percent—eight percent lower than the actual percentage reported. Most of the companies that had locations that failed to meet their targeted percentage implemented additional loss prevention controls at the location, and had the loss prevention department and/or internal audit/shrinkage control department investigate the cause of the shrinkage.

The high-shrink department was costume jewelry and fashion accessories, at 3.83 percent. This was the lowest "high-shrink" percentage in the survey. The high-shrink department for companies with $1 billion or more in revenue was ladies apparel, at 6.09 percent. The low-shrink department for the segment overall was shoes, at 1.17 percent.

Shrinkage Results

	All Participants		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
			Under $100		$100 to $399		$400 to $999		$1,000 or More	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	23	23	6	6	9	9	2	2	6	6
At Retail										
Total company-average shrinkage percent	1.87% *(23)*	2.01% *(23)*	1.71% *(6)*	2.06% *(6)*	1.78% *(9)*	1.77% *(9)*	2.37% *(2)*	2.77% *(2)*	2.01% *(6)*	2.06% *(6)*
Number of responses in the following ranges:										
Less than 1.50%	4	5	2	1	1	3	-	-	1	1
1.50% to 1.99%	10	10	3	3	6	4	-	-	1	3
2.00% or more	9	8	1	2	2	2	2	2	4	2
Total company-average shrinkage dollars *(In $ thousands)*	$23,790 *(22)*	$23,216 *(22)*	$1,016 *(6)*	$1,274 *(6)*	$3,593 *(8)*	$3,409 *(8)*	$17,593 *(2)*	$19,819 *(2)*	$75,558 *(6)*	$72,899 *(6)*

( ) = Number of responses to this question

Shrinkage by Department in 1990

Shrinkage Percentage at Retail

General Merchandise Departments	Apparel-Juniors	Apparel-Ladies	Apparel-Men	Camera-VCR	Fashion Accessories & Costume Jewelry	Fine Jewelry	Health & Beauty Aids	Radios, Televisions & Stereos	Records, Cassettes, CDs & Videotapes	Shoes	Sporting Goods	Toys, Hobbies & Games
	3.02% *(17)*	3.78 *(19)*	2.69 *(19)*	3.68 *(6)*	3.83 *(18)*	3.07 *(8)*	1.75 *(6)*	2.78 *(8)*	3.45 *(2)*	1.17 *(11)*	2.65 *(1)*	1.44 *(6)*

( ) = Number of responses to this question

Retailers' Targeted Shrinkage Percentage

	Targeted Shrinkage at Retail
All participants	1.72% *(16)*
Participants by 1990 revenue in $ millions:	
Under $100	1.80 *(3)*
$100 to $399	1.65 *(6)*
$400 to $999	1.90 *(2)*
$1,000 or more	1.67 *(5)*

( ) = Number of responses to this question

Actions Taken at Locations That Fail to Meet Their Shrinkage Goal

	Stores	Whse/DC
Number of responses to the question	17	9
Implement additional security and loss prevention controls at the store	88%	78%
Loss prevention department investigates the cause of shrinkage	82	89
Internal audit/shrinkage control department investigates the cause of shrinkage	82	89
Replace management at the location	41	44
Replace personnel at the location	24	22
Increase frequency of physical inventory procedures at the location	18	11
Other	18	11

Expenses and Capital Expenditures Overall, average loss prevention expenses remained flat from 1989 to 1990. This was generally true for the individual revenue groups as well. However, the department store respondents had the highest expenses as a percent of sales of all the segments in the survey, 0.47 percent. Also, their expenses in real dollars increased by two percent to $5.1 million per company.

People costs accounted for 80 percent of loss prevention expenses, with guards/detectives and other loss prevention employees accounting for 76 percent of the total. Employee guards/detectives accounted for the largest share of those expenses for all revenue groups except companies with less than $100 million in revenue. These department stores spent a greater percentage on their loss prevention departments.

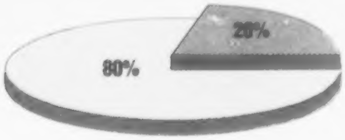
Capital expenditures averaged $644,000 per company, down from an average of $812,000 in 1989. On a same-respondent basis, capital spending decreased by 16 percent in 1990.

Capital expenditures decreased by 40 percent for companies with less than $100 million in revenue; it increased by 319 percent for companies with revenues of $100-$399 million; it increased by two percent for companies with revenues of $399-$999 million; and it decreased by 18 percent for companies with revenues of $1 billion or more.

Some 49 percent of the expenditures were made for CCTV, and 34 percent were made for other electrical equipment. Two revenue groups made their greatest capital expenditures on EAS equipment: companies with revenues below $100 million, and companies with revenues of $100-$399 million.

Breakdown of Security and Loss Prevention Expenses

(Based on 21 responses)



People Cost:	
Employee guards/detectives	48%
External guards/detectives	1
Prevention employees other than guards/detectives	27
Outside services	1
Incentive and reward programs	2
Employee awareness programs	1
Total people cost	**80%**

Other Security Cost:	
Alarms & physical facilities	8%
CCTV lease/rent/depreciation	4
EAS lease/rent/depreciation	6
Other electronic equipment lease/rent/depreciation	1
Other	1
Total other security cost	**20%**

Analysis of Security and Loss Prevention Expenses

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	23	23	6	6	9	9	2	2	6	6
Average expenses as a percent of sales	0.47%	0.47%	0.41%	0.40%	0.47%	0.47%	0.47%	0.48%	0.53%	0.53%
	(21)	*(21)*	*(5)*	*(5)*	*(8)*	*(8)*	*(2)*	*(2)*	*(6)*	*(6)*
Number of responses in the following ranges:										
Less than 0.10%	1	1	-	-	1	1	-	-	-	-
0.10% to 0.24%	2	2	1	1	-	-	-	-	1	1
0.25% to 0.49%	8	8	3	3	3	3	1	1	1	1
0.50% and more	10	10	1	1	4	4	1	1	4	4
Average expenses	$5,138	$5,042	$211	$217	$912	$875	$3,259	$3,376	$15,504	$15,175
(in $ thousands)	*(21)*	*(21)*	*(5)*	*(5)*	*(8)*	*(8)*	*(2)*	*(2)*	*(6)*	*(6)*

( ) = Number of responses to this question

Apprehensions Department store employees accounted for approximately six percent of total apprehensions. Last year, retailers apprehended almost 8,000 employees and 121,000 customers. However, 33 percent of the dollars recovered were traced to employee apprehensions; on average, retailers recovered $366,000 at retail per company from employee apprehensions and $730,000 from customer apprehensions. Moreover, another $672,000 per company in unrecovered merchandise was reported stolen by employees.

Security Devices Employee awareness programs were the most commonly utilized security devices; 91 percent of the department stores had these programs. A number of other devices were also utilized by a majority of the respondents, including CCTV, lock boxes, cables and chains, and incentive programs. EAS ink-type tags is the device most likely to be utilized in the future.

CCTV was ranked among the top four security devices by more respondents than any other—67 percent. Other frequently included devices were guards/detectives (61 percent), employee awareness programs (56 percent), and EAS non-ink-type tags (50 percent).

Mirrors were the most frequently ranked device among the four least effective security devices (47 percent). Other frequently low-ranked devices were employee package control programs, limited access areas, lock boxes, cables and chains, and observation booths.

Apprehensions and Dollars Recovered

	Customers		Employees	
	1990	1989	1990	1989
Total number of survey participants	23	23	23	23
Total aggregate apprehensions	120,836 *(20)*	103,817 *(19)*	7,973 *(19)*	7,924 *(19)*
Total value of merchandise recovered at retail *(in $ thousands)*	$11,688 *(16)*	$9,560 *(16)*	$5,849 *(16)*	$4,812 *(16)*
Total value of unrecovered merchandise employees admitted to stealing at retail *(in $ thousands)*	NA	NA	$7,394 *(11)*	$4,403 *(11)*
Average value of merchandise recovered per apprehension at retail	$212 *(16)*	$144 *(16)*	$609 *(16)*	$525 *(16)*

( ) = Number of responses to this question
NA=Information is not applicable

Security Devices

	Devices Presently Utilized	Company Plans on Implementing in the Future	Four Most Effective Security Devices				Four Least Effective Security Devices			
			#1	#2	#3	#4	#1	#2	#3	#4
Total responses to the question	23	8	18	18	18	17	15	12	12	12
Employee awareness programs	91%	13%	22%	6%	17%	12%	-%	17%	17%	-%
CCTV	87	13	33	17	6	12	7	-	-	8
Lock boxes, cables & chains	87	-	-	17	-	12	-	8	17	17
Incentive programs	78	-	-	-	22	-	13	8	8	-
POS systems	74	25	11	11	-	12	7	-	-	-
Guards/detectives	74	-	11	17	28	6	-	-	-	8
Employee package control programs	74	-	-	-	6	6	7	25	-	8
Observation booths	74	-	-	-	-	12	7	8	25	-
Limited access areas	65	-	-	-	-	-	13	-	25	-
EAS non-ink type tags	65	-	11	22	6	12	7	-	-	-
Security fixtures	51	-	-	-	-	-	-	17	8	8
Exception monitoring software	57	25	6	6	-	12	-	-	-	8
Mirrors	48	-	-	-	6	-	33	-	-	17
Fitting room attendants	43	-	-	-	6	-	-	8	-	8
Pre-employment honesty testing	30	-	-	-	-	6	-	8	-	8
Drug testing	17	13	-	6	-	-	-	-	-	-
EAS ink type tags	17	50	6	-	6	-	-	-	-	8
Subliminal behavior packages	-	-	-	-	-	-	7	-	-	-

Physical Inventory Counting Inventory counting at department stores was performed by store employees within the store at 87 percent of the respondents and by an inventory counting service at 26 percent.

Complete physical inventories were taken annually by 64 percent of the department stores and semi-annually by 36 percent.

The average annual cost of physical inventories was $959,000 per company. The companies with revenues of $1 billion or more estimated spending $3.6 million on average, those with revenues of $400-$999 million spent $590,000, companies with revenues of $100-$399 million spent $186,000 on average, and companies with revenues under $100 million spent an average of $36,000.

Complete store physicals were taken in one day or less at 64 percent of the department stores, and in three days at 14 percent of the companies.

An average of 121 people were utilized for physical inventories. An average of 201 were required for stores with 100,000 square feet or more. Eighty-two percent of the people utilized were store employees and 18 percent were from an inventory counting service.

Cycle counts are not commonly performed at department stores. Only 35 percent reported using this method, compared to 45 percent overall. Only supermarkets (24 percent) used cycle counts less frequently.

Overall, the department stores that did use cycle counts, however, reported significantly lower shrinkage than those companies that didn't use it: 1.81 percent versus 1.91 percent.

Analysis of Complete Store Physical Inventories

		PARTICIPANTS BY RETAIL STORE SIZE					
	All Participants	**Under 2,500 Feet**	**2,500 to 7,499 Feet**	**7,500 to 19,999 Feet**	**20,000 to 49,999 Feet**	**50,000 to 99,999 Feet**	**100,000 Feet or More**
Number of responses to this question	22	-	-	1	1	12	8
Number of days per store for a physical inventory							
Less than one day	23%	-	-	-%	-%	42%	-%
One day	41	-	-	-	100	33	50
One-and-a-half days	8	-	-	-	-	8	12
Two days	14	-	-	-	-	8	25
Three days	14	-	-	100	-	8	12
Number of people per store to perform a physical inventory							
Average	121	-	-	10	16	99	201
	(20)			*(1)*	*(1)*	*(12)*	*(6)*
Number of responses in the following ranges:							
Less than 5	-	-	-	-	-	-	-
5 to 10	1	-	-	1	-	-	-
11 to 29	3	-	-	-	1	2	-
30 or more	16	-	-	-	-	10	6

( ) = Number of responses to this question

In the future (one to three years), 73 percent of the department store respondents plan to count inventory by scanning each item's barcode. Forty-one percent plan to report inventory SKU information; 18 percent plan to use in-store final inventory reports; 18 percent plan to conduct more frequent physical inventories, while another 18 percent plan to do it less frequently.

Fourteen percent plan to do cycle counts by SKU; 14 percent plan to do cycle counts by department; and five percent plan to use spreadsheet scheduling for store physical inventories.

Analysis of Cycle Counts Performed at the Stores

		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS			
	All Participants	**Under $100**	**$100 - $399**	**$400 - $999**	**$1,000 or More**
Retailers performing cycle counts at the store level					
Number of responses to this question	23	6	9	2	6
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	35%	17%	44%	50%	33%
Cycle counts are not performed	65%	83%	56%	50%	67%
Shrinkage results of companies who perform cycle counts					
Number of responses to this question	23	6	9	2	6
At Retail					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	1.81% *(8)*	1.64% *(1)*	1.58% *(4)*	2.20% *(1)*	2.15% *(2)*
Cycle counts are not performed	1.91% *(15)*	1.73% *(5)*	1.93% *(5)*	2.54% *(1)*	1.94% *(4)*

( ) = Number of responses to this question

Turning the Tide at Eckerd Drug

Early in 1990, veteran loss prevention director Lew Shealy took over as VP, Loss Prevention, at Eckerd Drug, a $3.5 billion chain based in Largo, Florida. At the time, the chain lacked a formal program for preventing loss, and its shrinkage percentage was "moving in the wrong direction," says Shealy. Now, after setting up a formalized loss prevention organization, training staff, building awareness, and instituting procedures to monitor shrinkage, Shealy says "the tide is going out."

Faced with a rising shrink percentage, Eckerd Drug set up a formal loss prevention program that leads to the highest levels of company management. Now, the company is turning the tide on shrinkage.

The tide is what? "That phrase is part of our awareness program," says Shealy. "You always need goals and objectives in a loss prevention program, because goals and objectives generate effort. So last year we set our first goal—to stop our shrinkage from growing—and we used the slogan, 'Stop the tide from coming in.'" Eckerd stemmed the tide in January of 1991, and now, Shealy is happy to report, shrink is coming down.

Shealy spent most of his long career in the department store field, and found drug stores to be quite different. For one thing, the Eckerd chain is on the cost method of accounting, which makes it more difficult to pinpoint shrinkage, according to Shealy.

Also, the drug chain was not as systems oriented as most department stores. There was only a limited point-of-sale system, and, as a result, very little back-office support to produce exception reports that identify employee dishonesty.

Beyond that, the company was not oriented toward preventing loss. "The program, what there was of it, was geared toward apprehension," says Shealy. "There was no awareness, no effort to prevent loss."

Organizing for prevention Shealy's challenge, then, was to set up an organization dedicated to preventing loss, and this required a commitment from senior management. Shealy started with a "bottom-line" appeal: "The best way to increase gross margin today is to reduce shrink," he says. "You can't raise prices these days."

The argument is compelling when you consider the numbers. With a $3.5 billion company, a shrinkage reduction of just one-tenth of one percent is equivalent to $3.5 million.

Once he had the attention of senior management, the next step was to establish a loss prevention organization with a reporting structure that led to the highest levels of Eckerd Drug. He started by forming a corporate shrinkage committee. Chaired by Shealy, it includes the company's CEO, president, and CFO—"all the top management," says Shealy.

Next he set up a semi-autonomous regional organization, with each of the company's eight regions forming a loss prevention committee headed by a loss

EXPRESS PHOTO
ECKERD

At Eckerd Drug, the focus is on shrink awareness. But even more important, says Lew Shealy, is the audit.

prevention manager. Each committee would be ultimately responsible for its own programs, but these programs would be periodically reviewed and modified by the corporate committee.

Stressing goals and objectives In helping to design their programs, Shealy stressed goals and objectives and a heightened awareness of shrink. One of the cornerstones of the awareness program is a poster board, which has been installed in all 1,700 Eckerd Drug stores. The boards carry shrink awareness messages, track the store's known losses, and hold a supply of "Shrinkage Busting Suggestion Forms." These forms give associates a chance to participate in the effort to reduce shrink, and if an idea is implemented, the company pays the associate $25. From March 1, when the program was started, to September 30, more than 1,200 associates have sent in forms, and $9,000 has been paid out.

An emphasis on auditing Even more important than awareness, says Shealy, is the importance of auditing for compliance. "Probably the best weapon we have in loss prevention is the audit," he says. "As a result, 50 percent of our loss prevention time is spent on auditing."

This year alone, Eckerd performed 5,000 audits for loss prevention, an average of 2.7 audits per store. It is an additional burden, admits Shealy, but it forces all the stores to comply with procedures and standards, and that is a key to effective loss prevention.

Civil restitution pays dividends In his "new life" with Eckerd Drug, Shealy has also become very enamored of civil restitution. "If I was going back into a department store environment today," he says, "I would go in this direction."

Why? Because it generates revenue. Last year the company recovered over $700,000 through civil recovery, and this year expects to recover $1 million. Also, civil restitution is a practical alternative to prosecution, Shealy believes.

Eckerd takes civil action against about 95 percent of the customers it apprehends. When a manager apprehends someone, he or she gives the shoplifter a civil demand letter requesting $200. To make restitution "user-friendly," Eckerd accepts payment by credit card.

Shealy admits, however, that the professional shoplifter is the biggest enemy in a drug store. In one recently concluded case, professionals were stealing $3,000 per week worth of cosmetics and other items and selling the goods to flea markets.

With these people at least partially in mind, Eckerd is investing in a wireless closed-circuit television system, which will allow security people to monitor a store from off-premises, and an enormous new alarm system. The system, now being installed by ADT, will be the largest proprietary central alarm system in the U.S., and will save the company an estimated $500,000 per year.

Technology, though, is only a tool in the war on theft. To turn the tide on shrinkage, says Shealy, you need a commitment from your people—from senior management down, and your people have to be better business managers.

DRUG CHAINS

Shrinkage At retail, shrinkage was 1.78 percent of sales in 1990, a two percent increase from 1989. This was largely due to the company with revenues of $100-$399 million; its shrinkage increased by 12 percent.

At cost, shrinkage increased by an extraordinary 22 percent, from 1.77 percent to 2.16 percent. This was primarily attributable to two companies that reported increases of 116 percent and 367 percent.

In real dollars, shrink decreased by three percent at retail (based on only two companies) and increased by 14 percent at cost. At retail, the average dollars lost per drug chain was $14.9 million; at cost, it was $36.8 million.

Shrinkage Results

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		Under $100		$100 to $399		$400 to $999		$1,000 or More	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	11	11	2	2	2	2	1	1	6	6
At Retail										
Total company-average shrinkage percent	1.78% *(3)*	1.75% *(3)*	-	-	0.94% *(1)*	0.84% *(1)*	-	-	2.20% *(2)*	2.21% *(2)*
Number of responses in the following ranges:										
Less than 1.50%	2	1	-	-	1	1	-	-	1	-
1.50% to 1.99%	-	1	-	-	-	-	-	-	-	1
2.00% or more	1	1	-	-	-	-	-	-	1	1
Total company-average shrinkage dollars *(In $ thousands)*	$14,861 *(2)*	$15,294 *(2)*	-	-	$1,200 *(1)*	$1,000 *(1)*	-	-	$28,521 *(1)*	$29,588 *(1)*
At Cost										
Total company-average shrinkage percent	2.16% *(6)*	1.77% *(6)*	1.00% *(1)*	1.00% *(1)*	1.38% *(1)*	0.64% *(1)*	1.68% *(1)*	0.36% *(1)*	2.97% *(3)*	2.87% *(3)*
Number of responses in the following ranges:										
Less than 0.50%	-	1	-	-	-	-	-	1	-	-
0.50% to 1.49%	2	2	1	1	1	1	-	-	-	-
1.50% or more	4	3	-	-	-	-	1	-	3	3
Total company-average shrinkage dollars *(In $ thousands)*	$36,803 *(5)*	$32,263 *(5)*	$680 *(1)*	$710 *(1)*	$1,500 *(1)*	$700 *(1)*	$8,835 *(1)*	$1,907 *(1)*	$86,500 *(2)*	$79,000 *(2)*

( ) = Number of responses to this question

The drug chains' targeted shrink at retail was 2.15 percent of sales. At cost, it was 1.74 percent—19 percent lower than the figure actually reported. The targeted shrinkage at retail was based on only two respondents.

If a store failed to meet its targeted goal, the following actions were taken: the loss prevention department investigated the cause of the shrinkage (100 percent); the internal audit department investigated (86 percent); additional loss prevention controls were implemented (86 percent); physical inventories were taken more frequently (43 percent); personnel was replaced at the location (29 percent); and management was replaced at the location (29 percent).

Retailers' Targeted Shrinkage Percentage

	Targeted Shrinkage at Retail	Targeted Shrinkage at Cost
All participants	2.15% *(2)*	1.74% *(4)*
Participants by 1990 revenue in $ millions:		
Under $100	-	0.50 *(1)*
$100 to $399	-	-
$400 to $999	-	1.70 *(1)*
$1,000 or more	2.15 *(2)*	2.37 *(2)*

( ) = Number of responses to this question

Actions Taken at Locations That Fail to Meet Their Shrinkage Goal

	Stores	Whse/DC
Number of responses to the question	7	2
Loss prevention department investigates the cause of shrinkage	100%	100%
Implement additional security and loss prevention controls at the store	86	100
Internal audit/shrinkage control department investigates the cause of shrinkage	86	100
Increase frequency of physical inventory procedures at the location	43	-
Replace personnel at the location	29	-
Replace management at the location	29	-
Other	14	-

Shrinkage by Department in 1990

Shrinkage Percentage at Cost

General Merchandise Departments:	
Apparel-Juniors	-%
Apparel-Ladies	-
Apparel-Men	-
Camera-VCR	-
Fashion Accessories & Costume Jewelry	-
Fine Jewelry	-
Health & Beauty Aids	2.05 *(2)*
Pharmacy	-0.54 *(2)*
Radios, Televisions & Stereos	2.60 *(1)*
Records, Cassettes, CDs & Videotapes	2.60 *(1)*
Shoes	-
Sporting Goods	-
Toys, Hobbies & Games	2.00 *(1)*

( ) = Number of responses to this question

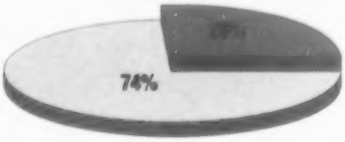
Expenses and Capital Expenditures Drug chains had the lowest loss prevention expenses as a percent of sales in the survey, and they decreased by five percent in 1990. In real dollars, they increased by nine percent. Average expenses were 0.21 percent overall, with a high of 0.33 percent for companies with revenues below $100 million.

Seventy-four percent of these expenses were for people costs, with payroll and charges relating to guards/detectives and other loss prevention employees accounting for 65 percent.

Capital expenditures averaged $539,000 in 1990. On a same-respondent basis, expenditures increased 51 percent, from $399,000 in 1989 to $602,000 in 1990. Expenditures were made primarily for EAS equipment (77 percent), followed by CCTV (14 percent), and security fixtures and other perimeter devices (eight percent).

Breakdown of Security and Loss Prevention Expenses

(Based on 10 responses)



People Cost:	
Employee guards/detectives	13%
External guards/detectives	18
Prevention employees other than guards/detectives	34
Outside services	7
Incentive and reward programs	1
Employee awareness programs	1
Total people cost	**74%**

Other Security Cost:	
Alarms & physical facilities	12%
CCTV lease/rent/depreciation	5
EAS lease/rent/depreciation	8
Other electronic equipment lease/rent/depreciation	-
Other	1
Total other security cost	**26%**

Analysis of Security and Loss Prevention Expenses

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	11	11	2	2	2	2	1	1	6	6
Average expenses as a percent of sales	0.21%	0.22%	0.33%	0.35%	0.18%	0.18%	0.05%	0.03%	0.22%	0.22%
	(9)	*(9)*	*(2)*	*(2)*	*(2)*	*(2)*	*(1)*	*(1)*	*(4)*	*(4)*
Number of responses in the following ranges:										
Less than 0.10%	1	1	-	-	-	-	1	1	-	-
0.10% to 0.24%	5	4	-	-	2	2	-	-	3	2
0.25% to 0.49%	3	4	2	2	-	-	-	-	1	2
0.50% and more	-	-	-	-	-	-	-	-	-	-
Average expenses	$2,114	$1,931	$235	$230	$205	$200	$253	$152	$4,473	$4,092
(in $ thousands)	*(9)*	*(9)*	*(2)*	*(2)*	*(2)*	*(2)*	*(1)*	*(1)*	*(4)*	*(4)*

( ) = Number of responses to this question

Apprehensions and Dollars Recovered The participating drug chains apprehended 86,100 people in 1990, only 4,300 (or five percent) of which were employees. However, these employees accounted for approximately half of the dollars recovered. Apprehended employees accounted for an average of $130,000 per company and apprehended customers accounted for $122,000 per company. Another $116,000 per company was said to have been stolen by employees and not recovered.

Security Devices Employee awareness programs and guards/detectives were the most frequently utilized security devices; both were used by 91 percent of the respondents.

Exception monitoring software and security fixtures were the two devices most likely to be implemented in the future.

Employee awareness programs were ranked among the top four security devices by 78 percent of the respondents. Other devices frequently cited were POS systems (67 percent) and guards/detectives (55 percent).

The devices most frequently ranked among the least effective devices were mirrors, employee package control programs, and security fixtures.

Apprehensions and Dollars Recovered

	Customers		Employees	
	1990	1989	1990	1989
Total number of survey participants	11	11	11	11
Total aggregate apprehensions	81,806 *(11)*	68,693 *(10)*	4,294 *(11)*	4,416 *(10)*
Total value of merchandise recovered at retail *(in $ thousands)*	$1,345 *(11)*	$1,032 *(9)*	$1,299 *(10)*	$920 *(9)*
Total value of unrecovered merchandise employees admitted to stealing at retail *(in $ thousands)*	NA	NA	$697 *(6)*	$590 *(6)*
Average value of merchandise recovered per apprehension at retail	$89 *(10)*	$125 *(8)*	$390 *(10)*	$359 *(9)*

( ) = Number of responses to this question
NA=Information is not applicable

Security Devices

	Devices Presently Utilized	Company Plans on Implementing in the Future	Four Most Effective Security Devices				Four Least Effective Security Devices			
			#1	#2	#3	#4	#1	#2	#3	#4
Total responses to the question	11	8	9	9	9	9	8	8	8	6
Employee awareness programs	91%	-%	67%	-%	-%	11%	-%	-%	-%	-%
Guards/detectives	91	-	11	33	-	11	-	-	-	17
CCTV	82	13	-	-	11	22	-	-	25	-
Mirrors	82	-	-	-	22	-	50	-	-	-
POS systems	73	25	-	56	11	-	-	-	-	33
Employee package control programs	73	13	11	-	-	22	13	-	25	17
Security fixtures	73	38	-	-	11	11	13	13	25	-
Limited access areas	64	-	-	-	11	-	-	25	-	-
Pre-employment honesty testing	64	25	-	-	11	11	-	13	-	17
EAS non-ink type tags	45	25	11	-	22	11	-	38	-	-
Incentive programs	36	13	-	-	-	-	-	-	-	-
Exception monitoring software	36	38	-	11	-	-	-	-	-	-
Observation booths	27	-	-	-	-	-	-	13	-	-
Drug testing	27	25	-	-	-	-	-	-	13	-
Lock boxes, cables & chains	9	-	-	-	-	-	-	-	-	-
Fitting room attendants	-	-	-	-	-	-	-	-	-	17
EAS ink type tags	-	-	-	-	-	-	13	-	13	-
Subliminal behavior packages	-	-	-	-	-	-	13	-	-	-

Physical Inventory Counting Store physical inventories were counted by an outside service at 91 percent of the drug chains. Twenty-seven percent reported using store employees from within the store, 18 percent used employees hired for inventory purposes, and 18 percent used store employees from another store.

Complete physicals were taken annually by 22 percent of the drug chains and semi-annually by 56 percent. Eleven percent counted physicals three times a year and another 11 percent counted them quarterly.

Drug chains had the highest average annual cost for physical inventories—$1.6 million per company. Companies with revenues of $1 billion or more spent an average of $2.7 million, the company with revenues of $400-$999 million spent $944,000, the company with revenues of $100-$399 million spent $140,000 and those with revenues under $100 million averaged $50,000.

For 67 percent of the respondents, complete store physical inventories took less than one day. For 22 percent, it took one day. On average, 19 people were used per store, with 68 percent of those people provided by an outside service and 32 percent coming from the store's staff.

In the future, 81 percent of the drug chain respondents plan to conduct cycle counts by department (45 percent) or SKU (36 percent). Sixty-four percent plan to count inventory by scanning each item's barcode; 36 percent plan to report inventory SKU information; 36 percent plan to conduct less frequent physicals; 27 percent plan to conduct more frequent physicals; 27 percent plan to use in-store final inventory reports; and 18 percent plan to use spreadsheet scheduling of store physicals.

Analysis of Complete Store Physical Inventories

		PARTICIPANTS BY RETAIL STORE SIZE					
	All Participants	**Under 2,500 Feet**	**2,500 to 7,499 Feet**	**7,500 to 19,999 Feet**	**20,000 to 49,999 Feet**	**50,000 to 99,999 Feet**	**100,000 Feet or More**
Number of responses to this question	9	-	-	6	3	-	-
Number of days per store for a physical inventory							
Less than one day	67%	-	-	83%	33%	-	-
One day	22	-	-	17	33	-	-
One-and-a-half days	11	-	-	-	33	-	-
Two days	-	-	-	-	-	-	-
Number of people per store to perform a physical inventory							
Average	19 *(9)*	-	-	12 *(6)*	31 *(3)*	-	-
Number of responses in the following ranges							
Less than 5	-	-	-	-	-	-	-
5 to 10	3	-	-	3	-	-	-
11 to 29	4	-	-	3	1	-	-
30 or more	2	-	-	-	2	-	-

( ) = Number of responses to this question

Analysis of Cycle Counts Performed at the Stores

		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS			
	All Participants	**Under $100**	**$100 - $399**	**$400 - $999**	**$1,000 or More**
Retailers performing cycle counts at the store level					
Number of responses to this question	11	2	2	1	6
Cycle counts are performed rather than complete store physical inventories	10%	-	50%	-	-
Cycle counts are performed in addition to complete store physical inventories	45%	50%	50%	100%	33%
Cycle counts are not performed	45%	50%	-	-	67%
Shrinkage results of companies who perform cycle counts					
Number of responses to this question	9	1	2	1	5
At Retail					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	2.02% *(2)*	-	0.94% *(1)*	-	3.10% *(1)*
Cycle counts are not performed	1.30% *(1)*	-	-	-	1.30% *(1)*
At Cost					
Cycle counts are performed rather than complete store physical inventories	1.38% *(1)*	-	1.38% *(1)*	-	-
Cycle counts are performed in addition to complete store physical inventories	2.29% *(2)*	-	-	1.68% *(1)*	2.90% *(1)*
Cycle counts are not performed	2.33% *(3)*	1.00% *(1)*	-	-	3.00% *(2)*

( ) = Number of responses to this question

PRE-EMPLOYMENT HONESTY TESTING

Few innovations in loss prevention have stirred more debate than pre-employment honesty testing. On one side are the advocates, who insist that these tests are the best predictors of honesty on the job. On the other side are those people who feel the tests are flawed, or that they violate an individual's right to privacy and even civil rights.

Honesty tests evaluate a candidate's ethical and workforce attitudes. While most experts feel that these tests should not be the sole criteria for evaluating a potential employee, many believe strongly that they screen out the overwhelming majority of candidates prone to theft and/or drug use. Unless lawmakers force them out of existence, as they did the polygraph test, the use of honesty testing seems likely to grow.

Some 47 percent of our participants used honesty testing in 1990, and 93 percent said it was effective in reducing shrinkage.

There was certainly no lack of enthusiasm for the tests by the loss prevention professionals we surveyed. Some 47 percent of our respondents used them in 1990: 58 percent of the supermarkets, 57 percent of the mass merchant/general merchandisers, 55 percent of the drug chains, 45 percent of the specialty hardliners, 32 percent of the specialty apparel chains, and 30 percent of the department stores.

The larger the company, the more frequently the test was used. It was used by 58 percent of the companies with $1 billion or more in revenue; 52 percent of the companies with revenues between $400-$999 million; 48 percent of the companies with revenues between $100-$399 million; and 35 percent of the companies with revenues below $100 million.

Who gets tested? Eighty-seven percent of the companies who used honesty testing, tested their store employees. Who does the testing? Fifty-nine percent did it in-house, and 46 percent used an outside service. Three companies utilized both.

Some 21 percent of job applicants were determined to be "high risk" as a result of pre-employment honesty testing. This percentage was fairly consistent across all sizes of company, with $1 billion companies reporting a high of 25 percent, and companies with under $100 million in revenue reporting a survey-low of 19 percent.

Once an applicant is identified as high risk, 61 percent of respondents automatically reject him or her, 36 percent consider the applicant if other qualifications exist, and nine percent conduct additional testing.

When asked about the effectiveness of honesty testing, 93 percent of retailers said it was effective in reducing shrinkage, 72 percent said it was effective in reducing employee turnover, and 51 percent said it improved employee productivity.

MASS MERCHANTS/ GENERAL MERCHANDISERS

Shrinkage At retail, shrinkage as a percent of sales declined 17 percent in 1990, from 2.16 percent to 1.80 percent. Declines were noted for all revenue groups except companies with revenues of $400-$999 million. This group suffered a 22 percent increase.

On average, mass merchants lost $45 million at retail due to shrinkage, a 15 percent increase from 1989.

At cost, shrinkage decreased six percent, from 1.13 percent to 1.06 percent. In real dollars, shrinkage at cost declined by nine percent.

Shrinkage Results

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		Under $100		$100 to $399		$400 to $999		$1,000 or More	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	22	22	3	3	6	6	3	3	10	10
At Retail										
Total company-average shrinkage percent	1.80%	2.16%	1.56%	2.96%	1.93%	2.20%	1.80%	1.47%	1.78%	2.09%
	(16)	*(16)*	*(2)*	*(2)*	*(5)*	*(5)*	*(2)*	*(2)*	*(7)*	*(7)*
Number of responses in the following ranges										
Less than 1.50%	3	3	1	-	1	1	-	1	1	1
1.50% to 1.99%	9	6	-	1	2	2	2	1	5	2
2.00% or more	4	7	1	1	2	2	-	-	1	4
Total company-average shrinkage dollars	$44,804	$38,808	$301	$501	$4,438	$4,910	$14,105	$10,267	$96,092	$82,954
(In $ thousands)	*(14)*	*(14)*	*(1)*	*(1)*	*(5)*	*(5)*	*(2)*	*(2)*	*(6)*	*(6)*
At Cost										
Total company-average shrinkage percent	1.06%	1.13%	0.21%	0.33%	1.53%	1.60%	-	-	1.45%	1.46%
	(3)	*(3)*	*(1)*	*(1)*	*(1)*	*(1)*			*(1)*	*(1)*
Number of responses in the following ranges										
Less than 0.50%	1	1	1	1	-	-	-	-	-	-
0.50% to 1.49%	1	1	-	-	-	-	-	-	1	1
1.50% or more	1	1	-	-	1	1	-	-	-	-
Total company-average shrinkage dollars	$10,207	$11,242	$125	$189	$2,900	$3,020	-	-	$27,597	$30,519
(In $ thousands)	*(3)*	*(3)*	*(1)*	*(1)*	*(1)*	*(1)*			*(1)*	*(1)*

( ) = Number of responses to this question

The high-shrink department was fashion accessories and costume jewelry, at 9.15 percent. The low-shrink department was toys, hobbies and games, at 1.33 percent.

Seventy-seven percent of the mass merchants had a targeted shrinkage goal, and at retail this goal was 1.67 percent, only seven percent lower than the percentage achieved.

Some 88 percent of the companies that failed to meet their shrinkage goals in the store implemented additional loss prevention controls, and 76 percent directed the loss prevention department to investigate the cause of the shrinkage. For companies that failed to meet their goals in the warehouse, 100 percent directed the internal audit/shrinkage control department to investigate, 89 percent had the loss prevention department investigate, and 67 percent implemented additional loss prevention controls.

Retailers' Targeted Shrinkage Percentage

	Targeted Shrinkage at Retail	Targeted Shrinkage at Cost
All participants	1.67% *(14)*	1.24% *(2)*
Participants by 1990 revenue in $ millions:		
Under $100	1.63 *(2)*	-
$100 to $399	1.91 *(3)*	1.20 *(1)*
$400 to $999	1.63 *(2)*	-
$1,000 or more	1.59 *(7)*	1.28 *(1)*

( ) = Number of responses to this question

Actions Taken at Locations That Fail to Meet Their Shrinkage Goal

	Stores	Whse/DC
Number of responses to the question	17	9
Implement additional security and loss prevention controls at the store	88%	67%
Loss prevention department investigates the cause of shrinkage	76	89
Internal audit/shrinkage control department investigates the cause of shrinkage	71	100
Replace management at the location	53	33
Replace personnel at the location	47	22
Increase frequency of physical inventory procedures at the location	41	22
Other	24	22

Shrinkage by Department in 1990

Shrinkage Percentage at Retail

General Merchandise Departments:	Apparel-Juniors	Apparel-Ladies	Apparel-Men	Camera-VCR	Fashion Accessories & Costume Jewelry	Fine Jewelry	Health & Beauty Aids	Pharmacy	Radios, Televisions & Stereos	Records, Cassettes, CDs & Videotapes	Shoes	Sporting Goods	Toys, Hobbies & Games
	1.77% *(14)*	2.07 *(13)*	1.62 *(14)*	3.15 *(11)*	9.15 *(14)*	3.13 *(8)*	2.83 *(13)*	2.78 *(3)*	4.22 *(11)*	3.98 *(11)*	2.40 *(9)*	4.94 *(12)*	1.33 *(14)*

( ) = Number of responses to this question

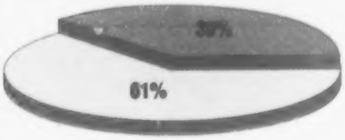
Expenses and Capital Expenditures On a same-respondent basis, loss prevention expenses as a percent of sales remained flat in 1990 at 0.36 percent. In real dollars, all revenue groups noted declines in 1990, except companies with revenues under $100 million and companies with revenues of $100-$399 million.

People costs accounted for 61 percent of loss prevention expenses, with 54 percent going for internal and external guards/detectives and prevention employees other than guards/detectives. For companies with revenues under $100 million, guards/detectives and loss prevention personnel accounted for only 13 percent of total expenses. Some 37 percent of their expenses went for EAS equipment, and 12 percent went for CCTV.

Capital expenditures averaged a survey-high $1,060,000 in 1990, up 16 percent from 1989. Some 45 percent of those expenditures went for EAS equipment, and 30 percent went for CCTV. In 1989, EAS accounted for 28 percent of capital expenditures, and CCTV accounted for 33 percent.

Breakdown of Security and Loss Prevention Expenses

(Based on 18 responses)



People Cost:	
Employee guards/detectives	25%
External guards/detectives	4
Prevention employees other than guards/detectives	25
Outside services	1
Incentive and reward programs	4
Employee awareness programs	2
Total people cost	**61%**

Other Security Cost:	
Alarms & physical facilities	13%
CCTV lease/rent/depreciation	7
EAS lease/rent/depreciation	10
Other electronic equipment lease/rent/depreciation	1
Other	8
Total other security cost	**39%**

Analysis of Security and Loss Prevention Expenses

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	22	22	3	3	6	6	3	3	10	10
Average expenses as a percent of sales	0.36% *(20)*	0.36% *(20)*	0.10% *(2)*	0.10% *(2)*	0.48% *(5)*	0.48% *(5)*	0.47% *(3)*	0.51% *(3)*	0.31% *(10)*	0.31% *(10)*
Number of responses in the following ranges:										
Less than 0.10%	4	4	1	1	-	-	1	1	2	2
0.10% to 0.24%	5	5	1	1	2	2	-	-	2	2
0.25% to 0.49%	4	4	-	-	-	-	-	-	4	4
0.50% and more	7	7	-	-	3	3	2	2	2	2
Average expenses *(in $ thousands)*	$5,871 *(20)*	$5,866 *(20)*	$55 *(2)*	$45 *(2)*	$1,257 *(5)*	$1,196 *(5)*	$4,126 *(3)*	$4,176 *(3)*	$9,865 *(10)*	$9,872 *(10)*

( ) = Number of responses to this question

Apprehensions Customers accounted for over 94 percent of total apprehensions but only 64 percent of the dollars recovered. On average, the mass merchants apprehended 10,591 customers and 643 employees per company and recovered an average of $400,000 at retail from customer apprehensions and $265,000 at retail from employee apprehensions per company.

The respondents said apprehended employees stole another $457,000 per company that was not recovered.

The average dollar amount recovered was $331 per employee apprehension and $44 per customer apprehension. Eight times more was recovered per employee apprehension than per customer apprehension.

Security Devices The most commonly utilized security devices were CCTV and employee awareness programs, both at 90 percent. Other commonly used devices were POS systems (85 percent), mirrors (85 percent), and limited access areas (80 percent).

Exception monitoring software is currently being used by 35 percent of the respondents. In the future, some 75 percent of the companies who responded to the question about future plans said they will use this software. Another 38 percent plan to implement drug testing.

Seventy-six percent of the respondents ranked CCTV as one of their four most effective security devices. Sixty-two percent included employee awareness programs among their top four, 48 percent included EAS non-ink-type tags and another 48 percent included guards/detectives.

Even though 85 percent of the respondents are presently utilizing mirrors in their loss prevention program, 70 percent reported this device among their

Apprehensions and Dollars Recovered

	Customers		Employees	
	1990	1989	1990	1989
Total number of survey participants	22	22	22	22
Total aggregate apprehensions	180,041 *(17)*	205,758 *(17)*	12,217 *(19)*	13,057 *(19)*
Total value of merchandise recovered at retail *(in $ thousands)*	$6,796 *(17)*	$7,537 *(17)*	$4,771 *(18)*	$5,119 *(17)*
Total value of unrecovered merchandise employees admitted to stealing at retail *(in $ thousands)*	NA	NA	$5,939 *(13)*	$4,326 *(13)*
Average value of merchandise recovered per apprehension at retail	$44 *(17)*	$41 *(17)*	$331 *(17)*	$318 *(17)*

( ) = Number of responses to this question
NA=Information is not applicable

Security Devices

	Devices Presently Utilized	Company Plans on Implementing in the Future	Four Most Effective Security Devices				Four Least Effective Security Devices			
			#1	#2	#3	#4	#1	#2	#3	#4
Total responses to the question	20	8	21	19	19	19	20	19	18	18
CCTV	90%	-%	19%	21%	37%	5%	-%	-%	11%	-%
Employee awareness programs	90	-	24	11	16	16	-	-	6	-
Mirrors	85	-	-	-	-	-	45	21	6	-
POS systems	85	25	5	-	16	11	5	-	-	6
Limited access areas	80	-	-	5	-	5	5	21	6	6
Guards/detectives	70	-	10	21	5	16	-	5	-	-
Incentive programs	70	-	10	21	-	16	-	-	6	22
Security fixtures	70	13	5	5	-	-	5	11	11	-
EAS non-ink type tags	65	25	29	-	11	11	-	-	-	11
Employee package control programs	60	-	-	5	-	-	5	11	11	17
Fitting room attendants	60	13	-	-	5	-	10	5	6	-
Lock boxes, cables & chains	55	-	-	-	-	-	-	5	28	11
Observation booths	50	-	-	-	-	-	-	11	-	11
Pre-employment honesty testing	45	13	-	5	-	-	-	5	11	-
Drug testing	40	38	-	-	5	5	15	-	-	-
Exception monitoring software	35	75	-	5	5	16	-	-	-	11
EAS ink type tags	-	25	-	-	-	-	-	5	-	-
Subliminal behavior packages	-	-	-	-	-	-	10	-	-	6

four least effective security devices. Forty percent included lock boxes, cables and chains among their bottom four, another 40 percent included employee package control programs, and 35 percent ranked limited access areas in their bottom four.

Physical Inventories The majority of mass merchants (63 percent) do not perform cycle counts, and most of those who do, utilized them in addition to complete physical inventories.

We analyzed the shrinkage results of companies that perform cycle counts and noted that their results were better than those companies that did not: 1.70 percent vs. 1.85 percent at retail.

Some 95 percent of the companies count complete store physical inventories. Most of the merchants (86 percent) used an inventory counting service to count inventory. Store employees were utilized by 32 percent.

Almost all (86 percent) of the companies took complete physicals on an annual basis. The remaining 14 percent took them on a semi-annual basis.

Some 75 percent of the respondents took one day or less to complete the physical inventory. As would be expected, companies with stores larger than 100,000 square feet took over one day.

The average number of people needed to perform complete physical inventories was 53 people per store. Stores larger than 100,000 square feet needed 95, while stores between 2,500-7,499 feet required only seven.

On average, 59 percent of the people required were from an outside inventory service and 41 percent were employees.

Analysis of Complete Store Physical Inventories

		PARTICIPANTS BY RETAIL STORE SIZE					
	All Participants	Under 2,500 Feet	2,500 to 7,499 Feet	7,500 to 19,999 Feet	20,000 to 49,999 Feet	50,000 to 99,999 Feet	100,000 Feet or More
Number of responses to this question	20	-	1	2	7	8	2
Number of days per store for a physical inventory							
Less than one day	35%	-	100%	50%	57%	13%	-
One day	40%	-	-	50%	29%	63%	-
One-and-a-half days	10%	-	-	-	-	13%	50%
Two days	15%	-	-	-	14%	13%	50%
Number of people per store to perform a physical inventory							
Average	53	-	7	15	37	68	95
	(19)		*(1)*	*(1)*	*(7)*	*(8)*	*(2)*
Number of responses in the following ranges							
Less than 5	-	-	-	-	-	-	-
5 to 10	1	-	1	-	-	-	-
11 to 29	5	-	-	1	3	1	-
30 or more	13	-	-	-	4	7	2

( ) = Number of responses to this question

Analysis of Cycle Counts Performed at the Stores

		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS			
	All Participants	Under $100	$100 - $399	$400 - $999	$1,000 or More
Retailers performing cycle counts at the store level					
Number of responses to this question	22	3	6	3	10
Cycle counts are performed rather than complete store physical inventories	5%	-	-	-	10%
Cycle counts are performed in addition to complete store physical inventories	32%	67%	50%	-	20%
Cycle counts are not performed	63%	33%	50%	100%	70%
Shrinkage results of companies who perform cycle counts					
Number of responses to this question	19	3	6	2	8
At Retail					
Cycle counts are performed rather than complete store physical inventories	1.70% *(1)*	-	-	-	1.70% *(1)*
Cycle counts are performed in addition to complete store physical inventories	1.70% *(4)*	2.00% *(1)*	1.44% *(2)*	-	1.92% *(1)*
Cycle counts are not performed	1.85% *(11)*	1.11% *(1)*	2.27% *(3)*	1.80% *(2)*	1.76% *(5)*
At Cost					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	1.06% *(3)*	0.21% *(1)*	1.52% *(1)*	-	1.45% *(1)*
Cycle counts are not performed	-	-	-	-	-

( ) = Number of responses to this question

Quantities were recorded during physicals by 95 percent of the respondents, retail price by 76 percent, department or merchandise class by 71 percent, and SKUs by only 29 percent.

The mass merchant respondents spent an average of $1.5 million per year on physical inventories—second only to drug chains. Companies with $1 billion or more in revenue spent an average of $3.2 million, companies with $400-$999 million in revenue spent $708,000, companies with revenues of $100-$399 spent $208,000, and companies with revenues under $100 million spent an average of $54,000.

In the future (the next one to three years), 60 percent of the mass merchants plan to count inventory by scanning each item's barcode; 30 percent plan to do cycle counts by SKU and 20 percent plan to do cycle counts by department; 45 percent plan to report inventory SKU information; 20 percent plan to conduct less frequent physicals; and 10 percent plan to increase the frequency. Fifteen percent plan to issue in-store final inventory reports; and 10 percent plan to use spreadsheet scheduling of store physicals.

SHRINKAGE INCENTIVE PROGRAMS

More and more companies today are seeking to involve their employees in shrink reduction, and as they do, incentive programs are playing a larger role. The programs take many forms. Sometimes, companies set up confidential phone lines for employees to call with information about dishonesty among their fellow employees. Other times, there might be a mechanism for reporting shoplifters or suggesting ways to prevent loss. But however the system is designed, it is driven by a reward system.

In our survey, 63 percent of the participants had shrinkage reduction incentive programs in 1990. The larger the company, the more likely they were to have them. In terms of segments, 80 percent of the specialty apparel companies had incentive programs, 78 percent of the department store chains had them, and 73 percent of the mass merchant/general merchandisers used them. The least active segment in this area was supermarkets; 44 percent of these companies used incentive programs in 1990.

Sixty-three percent of the participants had shrinkage incentive programs in 1990. The most popular programs combined monetary and non-monetary recognition awards.

The most popular programs were a combination of monetary and non-monetary recognition awards (64 percent). Thirty-two percent of the respondents used monetary awards only. Three percent used recognition awards only.

At 49 percent of the companies, all store level employees were eligible to participate. At 33 percent of the respondents, the eligible employees were all store level personnel other than security and loss personnel.

What was the basis for recognition? Seventy-five percent of the companies rewarded their employees for identifying dishonest employees, 60 percent offered incentives for reporting shoplifters, and 58 percent offered incentives for reducing shrinkage in a department or store.

The average award amount was $176. Companies with revenues below $100 million gave an average of $238. Companies with revenues of $1 billion or more gave an average of $179. In terms of segment, the specialty apparel companies gave the highest average award, $326, and drug chains had the lowest average, $57.

The average cost of these programs was $147,885. Mass merchants averaged a survey-high of $500,000, and drug chains averaged a survey-low of just $2,000.

SPECIALTY APPAREL

Shrinkage At retail, shrinkage as a percent of sales increased on a same respondent basis from 1.84 percent to 2.00 percent. In real dollars, shrink at retail increased from $2,753,000 to $3,114,000—a 13 percent increase. The difference between the overall average shrinkage of $6,219,000 and the same-respondent shrink of $2,753,000 is attributable to one company which failed to provide 1990 data.

Shrinkage at cost decreased from 2.68 percent to 2.25 percent—a 16 percent decrease. In real dollars, shrinkage at cost increased by 46 percent in 1990. This was largely attributable to one company, which suffered a significant increase in real dollar shrink.

The high-shrink department was fashion accessories and costume jewelry, at 4.99 percent. Also high was ladies apparel, at 3.79 percent. The low-shrink department was junior apparel, at 1.87 percent. Also notably low was shoes, at 1.94 percent.

Eighty-six percent of the apparel retailers had a shrinkage goal in 1990. At retail, this goal was 1.54 percent—23 percent below the actual figure of 2.00 percent.

The shrinkage goal at cost was 1.53—32 percent lower than the actual shrinkage.

Shrinkage Results

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		Under $100		$100 to $399		$400 to $999		$1,000 or More	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	21	21	13	13	4	4	3	3	1	1
At Retail										
Total company-average shrinkage percent	2.00%	1.89%	2.11%	1.91%	2.10%	1.81%	1.58%	1.63%	-	2.67%
	(15)	*(16)*	*(9)*	*(9)*	*(3)*	*(3)*	*(3)*	*(3)*		*(1)*
Number of responses in the following ranges:										
Less than 1.50%	4	5	3	3	-	1	1	1	-	-
1.50% to 1.99%	4	3	3	1	1	1	-	1	-	-
2.00% or more	7	8	3	5	2	1	2	1	-	1
Total company-average shrinkage dollars	$3,114	$6,219	$1,122	$1,071	$6,904	$5,735	$5,395	$5,011	-	$51,269
(In $ thousands)	*(13)*	*(14)*	*(8)*	*(8)*	*(3)*	*(3)*	*(2)*	*(2)*		*(1)*
At Cost										
Total company-average shrinkage percent	2.25%	2.68%	2.72%	3.51%	1.30%	1.03%	-	-	-	-
	(3)	*(3)*	*(2)*	*(2)*	*(1)*	*(1)*				
Number of responses in the following ranges:										
Less than 0.50%	-	-	-	-	-	-	-	-	-	-
0.50% to 1.49%	2	2	1	1	1	1	-	-	-	-
1.50% or more	1	1	1	1	-	-	-	-	-	-
Total company-average shrinkage dollars	$1,885	$1,295	$580	$535	$4,494	$2,815	-	-	-	-
(In $ thousands)	*(3)*	*(3)*	*(2)*	*(2)*	*(1)*	*(1)*				

( ) = Number of responses to this question

Retailers' Targeted Shrinkage Percentage

	Targeted Shrinkage at Retail	Targeted Shrinkage at Cost
All participants	1.54% *(13)*	1.53% *(3)*
Participants by 1990 revenue in $ millions:		
Under $100	1.66 *(8)*	1.85 *(2)*
$100 to $399	1.75 *(2)*	0.90 *(1)*
$400 to $999	1.08 *(3)*	-
$1,000 or more	-	-

( ) = Number of responses to this question

Actions Taken at Locations That Fail to Meet Their Shrinkage Goal

	Stores	Whse/DC
Number of responses to the question	18	13
Loss prevention department investigates the cause of shrinkage	89%	100%
Implement additional security and loss prevention controls at the location	78	69
Internal audit/shrinkage control department investigates the cause of shrinkage	44	54
Replace management at the location	44	23
Increase frequency of physical inventory procedures at the location	39	15
Replace personnel at the location	39	31
Other	39	15

Shrinkage by Department in 1990

Shrinkage Percentage at Retail

General Merchandise Departments	Apparel-Juniors	Apparel-Ladies	Apparel-Men	Camera-VCR	Fashion Accessories & Costume Jewelry	Fine Jewelry	Health & Beauty Aids	Pharmacy	Radios, Televisions & Stereos	Records, Cassettes, CDs & Videotapes	Shoes	Sporting Goods	Toys, Hobbies & Games
	1.87% *(3)*	3.79 *(7)*	2.31 *(10)*	-	4.99 *(6)*	-	-	-	-	-	1.94 *(6)*	-	-

( ) = Number of responses to this question

The most common course of action for those companies that did not meet their shrinkage goal was to have their loss prevention department investigate the cause of the shrinkage. Most also implemented additional security and loss prevention controls. Among the controls they implemented were: additional security personnel, additional training, and CCTV.

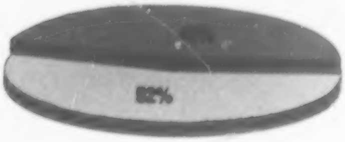
Expenses The specialty apparel companies had average loss prevention expenses of 0.30 percent as a percent of sales. This was lower than all other segments but drug chains and supermarkets. Expenses increased by seven percent in 1990, with the largest increase for companies with revenues of $100-$399 million; they noted a 22 percent increase. In real dollars, expenses increased by 21 percent to an average of $1,260,000.

People costs accounted for a survey-low 52 percent of loss prevention expenses, with prevention employees other than guards/detectives accounting for the largest share of total expenses, 23 percent. However, companies with revenues below $100 million incurred the greatest expenses on EAS equipment—28 percent.

Overall, specialty apparel stores spent significantly more of their budgets on EAS than any other segment (20 percent). Mass merchants were a distant second at 10 percent.

Breakdown of Security and Loss Prevention Expenses

(Based on 20 responses)



People Cost:	
Employee guards/detectives	8%
External guards/detectives	5
Prevention employees other than guards/detectives	23
Outside services	10
Incentive and reward programs	5
Employee awareness programs	1
Total people cost	**52%**

Other Security Cost:	
Alarms & physical facilities	16%
CCTV lease/rent/depreciation	1
EAS lease/rent/depreciation	20
Other electronic equipment lease/rent/depreciation	2
Other	9
Total other security cost	**48%**

Analysis of Security and Loss Prevention Expenses

	PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS									
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	21	21	13	13	4	4	3	3	1	1
Average expenses as a percent of sales	0.30% *(19)*	0.28% *(19)*	0.31% *(11)*	0.30% *(11)*	0.28% *(4)*	0.23% *(4)*	0.18% *(3)*	0.18% *(3)*	0.72% *(1)*	0.68% *(1)*
Number of responses in the following ranges:										
Less than 0.10%	2	3	1	1	-	1	1	1	-	-
0.10% to 0.24%	6	6	3	4	2	1	1	1	-	-
0.25% to 0.49%	9	8	6	5	2	2	1	1	-	-
0.50% and more	2	2	1	1	-	-	-	-	1	1
Average expenses *(in $ thousands)*	$1,260 *(19)*	$1,040 *(19)*	$167 *(11)*	$161 *(11)*	$872 *(4)*	$653 *(4)*	$984 *(3)*	$751 *(3)*	$15,664 *(1)*	$13,122 *(1)*

( ) = Number of responses to this question

Capital Expenditures Capital expenditures averaged $432,000 in 1990, 77 percent of which went for EAS equipment. In 1989, this group's expenditures averaged only $127,000, and EAS equipment accounted for only 25 percent of that figure. In 1989, the respondents spent the largest portion of their expenditures on CCTV—35 percent.

Apprehensions Employees accounted for only 11 percent of the apprehensions in 1990, but the dollars recovered from these apprehensions accounted for 34 percent of the total dollars recovered. On average, specialty apparel retailers apprehended 813 customers and 95 employees per company, and recovered an average of $131 per customer apprehension and $815 per employee apprehension. The average dollars recovered per company was $68,000 for customer apprehensions and $30,000 for employee apprehensions. An additional $50,000 per company that went unrecovered was admitted having been stolen by employees.

On a same-respondent basis, total apprehensions increased by 14 percent from 1989 to 1990.

Apprehensions and Dollars Recovered

	Customers		Employees	
	1990	1989	1990	1989
Total number of survey participants	21	21	21	21
Total aggregate apprehensions	12,199 *(15)*	10,551 *(15)*	1,711 *(18)*	1,698 *(16)*
Total value of merchandise recovered at retail *(in $ thousands)*	$817 *(12)*	$604 *(12)*	$508 *(17)*	$421 *(15)*
Total value of unrecovered merchandise employees admitted to stealing at retail *(in $ thousands)*	NA	NA	$650 *(13)*	$571 *(11)*
Average value of merchandise recovered per apprehension at retail	$131 *(10)*	$117 *(11)*	$815 *(15)*	$1,099 *(14)*

( ) = Number of responses to this question
NA=Information is not applicable

Security Devices Employee awareness programs and non-ink type EAS tags are currently being utilized by 78 percent of the respondents. Other frequently utilized devices are POS systems and incentive programs (67 percent), and guards/detectives (61 percent). In the future, 45 percent of the retailers plan to utilize pre-employment honesty testing, 27 percent plan to use exception monitoring software, and 27 percent will use incentive programs.

Employee awareness programs were ranked as the most effective security device, receiving 41 percent of the most effective votes and 31 percent of the votes for second most effective device.

Security Devices

	Devices Presently Utilized	Company Plans on Implementing in the Future	Four Most Effective Security Devices				Four Least Effective Security Devices			
			#1	#2	#3	#4	#1	#2	#3	#4
Total responses to the question	18	11	17	16	16	15	15	14	13	12
Employee awareness programs	78%	18%	41%	31%	-%	-%	-%	7%	8%	-%
EAS non-ink type tags	78	-	29	6	6	27	-	-	8	26
POS systems	67	18	6	6	25	13	-	7	8	-
Incentive programs	67	27	6	19	-	13	-	-	-	8
Guards/detectives	61	-	12	6	-	13	7	7	8	18
Employee package control programs	56	9	-	13	-	-	13	22	8	-
Exception monitoring software	56	27	-	6	13	7	7	-	15	8
CCTV	50	9	-	-	19	-	7	-	-	8
Mirrors	50	-	-	-	-	7	45	7	-	8
Lock boxes, cables & chains	50	9	-	-	25	7	7	7	22	-
Pre-employment honesty testing	33	45	-	-	6	-	-	7	-	-
Limited access areas	22	-	-	6	-	-	-	7	-	8
Security fixtures	22	-	-	-	-	-	7	-	-	8
EAS ink type tags	22	18	6	-	6	-	-	-	-	-
Drug testing	17	18	-	-	-	7	-	7	8	-
Fitting room attendants	6	-	-	-	-	-	-	7	-	-
Observation booths	6	-	-	-	-	-	-	-	15	-
Subliminal behavior packages	6	9	-	-	-	-	7	15	-	8

Mirrors were ranked least effective by 45 percent of the respondents. Employee package control programs were ranked second least effective by 22 percent, and lock boxes, cables and chains were ranked third least effective by 22 percent. A dissenting vote was cast for the generally popular non-ink type EAS tags: 26 percent ranked it the fourth least effective device.

Physical Inventory Counting Only 37 percent of the specialty apparel retailers performed cycle counts, but those who did had significantly lower shrinkage at retail—1.40 percent vs. 2.49 percent. Those companies that perform cycle counts do it primarily on select merchandise; they do not count all the store inventories through cycle counts on an annual basis.

Complete physical inventories were counted by an inventory counting service at 63 percent of the retailers; store employees within the store perform counts at 42 percent. Store employees within the store were utilized at 75 percent of the companies with revenues between $100-$399 million.

Complete store physical inventories were taken semi-annually by 47 percent of the retailers and annually by 26 percent. All respondents reported taking complete physical inventories. The procedures took less than one day at 83 percent of the respondents. On average, 15 people were required for the counts and 63 percent of the people were from an inventory counting service. The remaining 37 percent were store employees.

Analysis of Complete Store Physical Inventories

		PARTICIPANTS BY RETAIL STORE SIZE					
	All Participants	Under 2,500 Feet	2,500 to 7,499 Feet	7,500 to 19,999 Feet	20,000 to 49,999 Feet	50,000 to 99,999 Feet	100,000 Feet or More
Number of responses to this question	18	4	10	2	2	-	-
Number of days per store for a physical inventory							
Less than one day	83%	100%	80%	100%	50%	-	-
One day	11%	-	20%	-	-	-	-
One-and-a-half days	-	-	-	-	-	-	-
Two days	6%	-	-	-	50%	-	-
Number of people per store to perform a physical inventory							
Average	15 *(18)*	9 *(4)*	11 *(10)*	20 *(2)*	47 *(2)*	-	-
Number of responses in the following ranges:							
Less than 5	1	-	1	-	-	-	-
5 to 10	8	3	5	-	-	-	-
11 to 29	6	1	3	2	-	-	-
30 or more	3	-	1	-	2	-	-

( ) = Number of responses to this question

The average annual cost of physical inventory procedures was $345,000. The averages ranged from a low of $83,000 for companies with revenues of under $100 million to a high of $2.5 million for the one respondent with revenues of $1 billion or more.

In the future, 73 percent of the respondents will count merchandise by scanning each item's barcode. Forty-seven percent will record inventory SKU information; 40 percent will perform cycle counts by SKU; and 40 percent will perform cycle counts by department.

Twenty percent of the respondents plan to perform physical inventories more frequently, while another 20 percent plan to perform them less frequently. Twenty percent will utilize in-store physical inventory reports, and 13 percent will use spreadsheet scheduling of store physicals.

Analysis of Cycle Counts Performed at the Stores

		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS			
	All Participants	**Under $100**	**$100 - $399**	**$400 - $999**	**$1,000 or More**
Retailers performing cycle counts at the store level					
Number of responses to this question	19	11	4	3	1
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	37%	45%	25%	33%	-
Cycle counts are not performed	63%	55%	75%	67%	100%
Shrinkage results of companies who perform cycle counts					
Number of responses to this question	17	10	4	3	-
At Retail					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	1.40% *(6)*	1.47% *(4)*	1.85% *(1)*	0.64% *(1)*	-
Cycle counts are not performed	2.49% *(8)*	2.84% *(4)*	2.22% *(2)*	2.05% *(2)*	-
At Cost					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	1.04% *(1)*	1.04% *(1)*	-	-	-
Cycle counts are not performed	2.85% *(2)*	4.40% *(1)*	1.30% *(1)*	-	-

( ) = Number of responses to this question

At Kay-Bee Toys, Loss Prevention Only Seems Like Fun and Games

Picture this: thousands of kids a day are streaming through your stores, hungrily eyeing the latest heavily promoted toy or video game cartridge. Manning the aisles and providing your primary line of defense against theft and point-of-sale mismanagement are a limited number of sales associates. A scenario for high shrinkage? Absolutely, unless you manage it aggressively, as Kay-Bee Toy Stores does.

With a high exposure to theft, Kay-Bee Toys is attacking shrink aggressively. To be effective, however, they have had to change the company's culture.

A division of Melville Corp., Kay-Bee Toys is a $1 billion chain of 1,263 toy stores located primarily in shopping malls. According to Dan Burns, the company's loss prevention director, the concerns in toy retailing are similar to those in the specialty apparel segment—both carry trendy product lines and draw young customers who have a tendency to shoplift.

"Toys is a fashion industry," he says. "Products like Nintendo and Cabbage Patch Dolls are heavily promoted through television, and retailers have to time the hot streaks properly. That means we have to carry large quantities and lots of SKUs, which increases our exposure to theft."

Compounding the challenge, he says, is Kay-Bee's mall locations. Youngsters like to roam in malls, making the situation "tougher to control," he says—especially when the mall stores are staffed primarily by sales people aged 17-22.

Shrinkage not a top priority in the '80s

Remarkably, says Burns, Kay-Bee did not fully recognize its vulnerability to shrinkage until recently. In the 1980s, when business was brisk and margins were high, the dollars lost to shrinkage went largely unnoticed. Of course, if there was a major problem at a particular location, they addressed it. But management also had the luxury of taking markups to compensate for significant losses.

The nineties obviously presents a new reality. There is considerable pressure on margins, and shrinkage is impacting the bottom line, even at growing, profitable companies like Kay-Bee. For Burns, who joined the company in late 1990, this has meant attacking shrink aggressively. But it has also meant changing a company culture that has not fully appreciated the shrinkage problem before.

Change starts from the top

Working with senior management, Burns began instituting these cultural changes in January, 1991. His first step was to scale down and redefine the role of loss prevention in the field. The new structure consists of 10 regional loss prevention managers, each responsible for approximately 110 stores.

These loss prevention managers were "empowered" to take complete responsibility for loss prevention in their regions and work closely with the regional sales managers in all aspects of the business. Education, training and prevention now play a larger role than investigation and detection.

T.O.Y.S. awareness Burns' next major initiative was to heighten awareness throughout the organization, and particularly at the sales associate level. "Our associates are our first line of defense," says Burns. "It's critical that we get and hold their attention."

Because most of Kay-Bee's associates are between the ages of 17 and 22, and because there was little awareness training before he arrived, the program includes some very fundamental things. Associates are told to make eye contact with customers, for example. They're also trained to be friendly and ask questions like, "Can I help you?"

These kinds of fundamentals are also communicated on stock-room bulletin boards. Every week, the board carries a new loss prevention message such as, "Never leave back doors unattended."

Beyond the basics, Burns has fashioned a creative awareness program known as TOYS, which stands for Take On Your Shrinkage. Associates wear TOYS buttons, which serve as constant reminders, and every month the loss prevention department holds an awareness activity aimed at the 17-22 year olds.

Back in October, Burns held a "lottery-type" event. All 17,000 Kay-Bee associates were sent a lottery-style ticket that quizzed them on basic loss prevention issues, and also gave them an opportunity to win a "grand" prize. By scratching off one of the four numbers on the ticket, an associate had a chance to win a canvas bag. (There were 300 winners.)

The company also runs loss prevention articles in its internal newsletters, and it sends out attention-grabbing messages in its payroll stuffers. Often these messages are in the form of cartoons. One recent example: Two "bandit-like" characters are talking. One says to the other, "I really like these steal one, get one free sales."

Limited use of technology Loss prevention technologies are used sparingly at Kay-Bee. According to Burns, the technological focus is on the POS. Specifically, they are now utilizing it more fully to produce exception reports and beyond that, to generate a kind of loss prevention "profile" at the store level.

The company does not use EAS, though it will be testing it in 1992. In high-shrink locations, it does use some of the traditional loss prevention devices, like mirrors. But as Burns says, Kay-Bee's primary "device" is its people.

Are they effective? Yes, says Burns. Kay-Bee's shrinkage has historically been in line with the industry standard for hardliners, somewhere between 2.00 and 2.50 percent of sales.

"Shrink can be controlled," says Burns. "You need a commitment from management, a strong organization with careful monitoring and reporting, and most of all, awareness. Fortunately, we have that commitment."

Burns has fashioned a creative awareness program known as TOYS, which stands for Take On Your Shrinkage. Associates wear TOYS buttons, and every month the loss prevention department holds an awareness activity.

SPECIALTY HARDLINES

Shrinkage At retail, shrinkage as a percent of sales remained flat in 1990, at 1.41 percent. On average, companies lost $13.8 million at retail, a three percent increase from 1989.

On a same-respondent basis, shrinkage at cost increased from 0.70 percent of sales in 1989 to 0.76 percent in 1990, a nine percent increase. Overall, the 1990 shrink percentage at cost was 0.73 percent. In real dollars, on a same-respondent basis, shrink increased from $1.9 million to $2.6 million at cost, a 37 percent increase. This increase is primarily attributable to one company, which reported a 60 percent increase in real dollar shrink.

The specialty hardliners had a targeted shrinkage goal at retail of 2.01 percent. This goal was an extraordinary 43 percent higher than the actual shrinkage of 1.41 percent. The shrink goal at cost was 0.71 percent, just three percent below the actual shrinkage reported.

When asked what actions are taken at stores that failed to meet their shrink goals, most respondents said they have their loss prevention department and/or the internal audit/shrinkage control department investigate the cause of the shrinkage. Almost 70 percent reported increasing physical inventory procedures at high-shrink locations, and over 50 percent replace personnel at the locations.

Shrinkage Results

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		Under $100		$100 to $399		$400 to $999		$1,000 or More	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	22	22	8	8	8	8	5	5	1	1
At Retail										
Total company-average shrinkage percent	1.41%	1.41%	-	-	0.50%	0.47%	1.84%	1.96%	2.40%	2.20%
	(5)	*(5)*			*(2)*	*(2)*	*(2)*	*(2)*	*(1)*	*(1)*
Number of responses in the following ranges:										
Less than 1.50%	3	3	-	-	2	2	1	1	-	-
1.50% to 1.99%	-	-	-	-	-	-	-	-	-	-
2.00% or more	2	2	-	-	-	-	1	1	1	1
Total company-average shrinkage dollars	$13,798	$13,458	-	-	$510	$420	$11,184	$14,525	$45,600	$37,400
(In $ thousands)	*(5)*	*(5)*			*(2)*	*(2)*	*(2)*	*(2)*	*(1)*	*(1)*
At Cost										
Total company-average shrinkage percent	0.73%	0.70%	0.58%	0.66%	0.68%	0.70%	1.25%	0.90%	-	-
	(12)	*(9)*	*(5)*	*(4)*	*(5)*	*(4)*	*(2)*	*(1)*		
Number of responses in the following ranges:										
Less than 0.50%	4	2	2	1	2	1	-	-	-	-
0.50% to 1.49%	7	7	3	3	3	3	1	1	-	-
1.50% or more	1	-	-	-	-	-	1	-	-	-
Total company-average shrinkage dollars	$2,383	$1,887	$224	$226	$1,140	$1,405	$9,644	$9,494	-	-
(In $ thousands)	*(10)*	*(7)*	*(5)*	*(4)*	*(3)*	*(2)*	*(2)*	*(1)*		

( ) = Number of responses to this question

Retailers' Targeted Shrinkage Percentage

	Targeted Shrinkage at Retail	Targeted Shrinkage at Cost
All participants	2.01% *(5)*	0.71% *(7)*
Participants by 1990 revenue in $ millions:		
Under $100	-	0.30 *(2)*
$100 to $399	1.00 *(1)*	0.68 *(3)*
$400 to $999	2.27 *(3)*	1.18 *(2)*
$1,000 or more	2.25 *(1)*	-

( ) = Number of responses to this question

Actions Taken at Locations That Fail to Meet Their Shrinkage Goal

	Stores	Whse/DC
Number of responses to the question	13	6
Loss prevention department investigates the cause of shrinkage	85%	67%
Internal audit/shrinkage control department investigates the cause of shrinkage	85	83
Increase frequency of physical inventory procedures at the location	69	67
Implement additional security and loss prevention controls at the location	54	33
Replace personnel at the location	54	67
Replace management at the location	31	33
Other	15	17

Expenses and Capital Expenditures Loss prevention expenses increased by 13 percent as a percent of sales in 1990 and by 12 percent in real dollars. On average, specialty hardliners spent $862,000, or 0.35 percent of sales, to prevent loss.

Companies with revenues between $100-$399 million spent 0.59 percent—a remarkable 69 percent more than the norm. It should be noted that these companies had shrink percentages, both at retail and cost, that were well below average: 0.50 percent and 0.68 percent respectively.

The one specialty hardliner with revenues of $1 billion or more spent only 0.07 percent of sales.

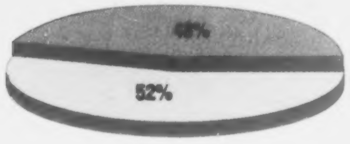
Specialty hardliners tied with the specialty apparel segment for a survey low 52 percent spent on people costs. The largest expense for these companies was alarms and physical facilities, accounting for 38 percent of total expenses. Companies with revenues of $400-$999 million spent the greatest amount on guards/detectives (32 percent), and the respondent with $1 billion or more in annual revenue spent its largest amount, 40 percent, on loss prevention personnel.

Capital expenditures averaged $134,000 in 1990. On a same-respondent basis, expenditures increased an astounding 145 percent from 1989.

Some 54 percent of capital expenditures were made on POS monitoring systems, 16 percent was spent on security fixtures and other perimeter security devices, 12 percent was spent on CCTV, and 11 percent was spent on EAS equipment. This was a dramatically different pattern from 1989, when hardline respondents made 44 percent of their expenditures on security fixtures, 33 percent on CCTV, and none on POS systems.

Breakdown of Security and Loss Prevention Expenses

(Based on 20 responses)



People Cost:	
Employee guards/detectives	18%
External guards/detectives	6
Prevention employees other than guards/detectives	15
Outside services	4
Incentive and reward programs	5
Employee awareness programs	4
Total people cost	**52%**

Other Security Cost:	
Alarms & physical facilities	38%
CCTV lease/rent/depreciation	4
EAS lease/rent/depreciation	2
Other electronic equipment lease/rent/depreciation	2
Other	2
Total other security cost	**48%**

Analysis of Security and Loss Prevention Expenses

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	22	22	8	8	8	8	5	5	1	1
Average expenses as a percent of sales	0.35%	0.31%	0.18%	0.15%	0.59%	0.52%	0.26%	0.25%	0.07%	0.08%
	(19)	*(19)*	*(6)*	*(6)*	*(7)*	*(7)*	*(5)*	*(5)*	*(1)*	*(1)*
Number of responses in the following ranges:										
Less than 0.10%	7	7	3	3	2	2	1	1	1	1
0.10% to 0.24%	4	5	1	2	2	2	1	1	-	-
0.25% to 0.49%	4	4	1	1	-	-	3	3	-	-
0.50% and more	4	3	1	-	3	3	-	-	-	-
Average expenses *(in $ thousands)*	$862	$770	$89	$75	$914	$691	$1,630	$1,609	$1,300	$1,300
	(19)	*(19)*	*(6)*	*(6)*	*(7)*	*(7)*	*(5)*	*(5)*	*(1)*	*(1)*

( ) = Number of responses to this question

Apprehensions Employees accounted for only 14 percent of the total apprehensions in 1990, but 62 percent of the dollars recovered. On average, specialty hardliners apprehended 556 customers and 90 employees per company, and recovered $47,000 per company from customer apprehensions and $77,000 from employee apprehensions. Employees admitted to stealing another $44,000 per company that went unrecovered.

Security Devices CCTV was the most frequently utilized security device (75 percent), followed by employee awareness programs (70 percent). Awareness programs were also included among the top four security devices by more retailers (53 percent) than any other. Incentive programs were second (47 percent), POS systems were third (41 percent), and CCTV and drug testing were tied for fourth (35 percent).

Drug testing and lock boxes, cables and chains were ranked among the four least effective devices by 43 percent of the respondents. CCTV was cited by 36 percent, and limited access areas and security fixtures each received 29 percent of the vote for least effective device.

Apprehensions and Dollars Recovered

	Customers		Employees	
	1990	1989	1990	1989
Total number of survey participants	22	22	22	22
Total aggregate apprehensions	7,227 *(13)*	2,698 *(12)*	1,171 *(13)*	864 *(12)*
Total value of merchandise recovered at retail *(in $ thousands)*	$565 *(12)*	$228 *(11)*	$925 *(12)*	$712 *(11)*
Total value of unrecovered merchandise employees admitted to stealing at retail *(in $ thousands)*	NA	NA	$441 *(10)*	$501 *(10)*
Average value of merchandise recovered per apprehension at retail	$213 *(10)*	$201 *(9)*	$1,178 *(11)*	$489 *(9)*

( ) = Number of responses to this question
NA=Information is not applicable

Security Devices

	Devices Presently Utilized	Company Plans on Implementing in the Future	Four Most Effective Security Devices				Four Least Effective Security Devices			
			#1	#2	#3	#4	#1	#2	#3	#4
Total responses to the question	20	11	17	16	15	13	13	12	11	11
CCTV	75%	9%	6%	19%	7%	8%	15%	8%	9%	9%
Employee awareness programs	70	27	29	13	13	-	-	-	9	18
POS systems	60	18	-	13	27	8	-	-	18	-
Guards/detectives	60	-	6	13	13	-	8	8	-	9
Lock boxes, cables & chains	60	-	12	6	-	-	8	25	9	9
Limited access areas	55	-	-	6	13	-	8	17	9	-
Drug testing	55	36	6	6	7	23	8	8	9	27
Incentive programs	50	27	6	19	13	15	-	-	-	-
Mirrors	50	-	-	-	-	-	15	-	9	-
Pre-employment honesty testing	50	-	24	-	-	8	15	8	-	-
Security fixtures	45	-	6	-	-	-	8	17	9	-
EAS non-ink type tags	35	9	-	-	-	15	-	8	-	9
Exception monitoring software	35	27	6	6	7	15	-	-	9	9
Observation booths	20	9	-	-	-	-	15	-	-	-
Employee package control programs	15	9	-	-	-	8	-	-	-	-
EAS ink type tags	-	-	-	-	-	-	-	-	-	-
Fitting room attendants	-	-	-	-	-	-	-	-	-	9
Subliminal behavior packages	-	9	-	-	-	-	-	-	9	-

The devices most likely to be implemented in the future are: drug testing programs (36 percent), exception monitoring software (27 percent), employee awareness programs (27 percent) and incentive programs (27 percent).

Physical Inventory Counting The hardlines respondents spent an average of $375,000 annually on physical inventory procedures. The company with revenues of $1 billion or more spent an estimated $1.3 million, companies with revenues of $400-$999 million spent $515,000, companies with revenues of $100-$399 million spent $346,000, and companies with revenues of under $100 million spent an average of $18,000.

One hundred percent of the respondents performed complete physical inventories in 1990. Sixty-five percent of these retailers used store employees within the store to perform store physicals, 35 percent utilized an inventory counting service, and 25 percent used store employees from another store. Fifty-two percent of the retailers performed physicals on an annual basis, and 29 percent performed them semi-annually.

Eighty percent of the respondents counted complete store physicals in one day or less. On average, 28 people were used to count store inventories, with stores less than 2,500 square feet utilizing only two people and stores between 50,000-99,999 square feet utilizing 49. Seventy-two percent of the people were store employees and 28 percent were from an outside inventory service.

Fifty-seven percent of the specialty hardliners performed cycle counts in addition to complete physical inventories. Those companies that used cycle counts noted a lower shrink percentage at cost than those companies that did not use them—0.62 percent vs. 0.96 percent.

Analysis of Complete Store Physical Inventories

		PARTICIPANTS BY RETAIL STORE SIZE					
	All Participants	Under 2,500 Feet	2,500 to 7,499 Feet	7,500 to 19,999 Feet	20,000 to 49,999 Feet	50,000 to 99,999 Feet	100,000 Feet or More
Number of responses to this question	20	2	2	6	5	5	-
Number of days per store for a physical inventory							
Less than one day	50%	50%	50%	33%	40%	80%	-
One day	30%	50%	-	33%	40%	20%	-
One-and-a-half days	15%	-	50%	33%	-	-	-
Two days	-	-	-	-	-	-	-
Three days	5%	-	-	-	20%	-	-
Number of people per store to perform a physical inventory							
Average	28	2	14	19	34	49	-
	(20)	*(2)*	*(2)*	*(6)*	*(5)*	*(5)*	
Number of responses in the following ranges:							
Less than 5	3	2	-	-	-	1	-
5 to 10	2	-	1	1	-	-	-
11 to 29	8	-	1	5	2	-	-
30 or more	7	-	-	-	3	4	-

( ) = Number of responses to this question

In the future (the next one to three years), 61 percent of the respondents plan to count inventories by scanning each item's barcode. Fifty-six percent plan to perform cycle counts by SKU; and 11 percent plan to do cycle counts by department.

Thirty-nine percent plan to record inventory SKU information; 39 percent will perform less frequent physical inventories; and 17 percent will perform more frequent physical counts. Thirty-three percent plan to use in-store physical inventory reports; and 11 percent will use spreadsheet scheduling of store physical inventories.

Analysis of Cycle Counts Performed at the Stores

		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS			
	All Participants	**Under $100**	**$100 - $399**	**$400 - $999**	**$1,000 or More**
Retailers performing cycle counts at the store level					
Number of responses to this question	21	7	8	5	1
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	57%	57%	75%	20%	100%
Cycle counts are not performed	43%	43%	25%	80%	-
Shrinkage results of companies who perform cycle counts					
Number of responses to this question	17	5	7	4	1
At Retail					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	1.07% *(4)*	-	0.50% *(2)*	0.87% *(1)*	2.40% *(1)*
Cycle counts are not performed	2.80% *(1)*	-	-	2.80% *(1)*	-
At Cost					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	0.62% *(8)*	0.64% *(4)*	0.61% *(4)*	-	-
Cycle counts are not performed	0.96% *(4)*	0.33% *(1)*	1.00% *(1)*	1.25% *(2)*	-

( ) = Number of responses to this question

SUPERMARKETS

Shrinkage At retail, supermarket shrinkage increased as a percent of sales, from 0.75 percent to 0.81 percent, an eight percent increase. In real dollars, shrink losses increased 15 percent. The average loss per company was $6.6 million at retail in 1990, up from $5.7 million in 1989.

Shrinkage at cost decreased as a percent of sales, from 1.03 percent to 0.97 percent, a six percent decline. However, these figures were based on only four companies, and a shrink decline was noted for only the company with revenues of $1 billion or more. In real dollars, shrinkage at cost declined, from $38.3 million per company to $29.5 million, a 23 percent drop.

Produce was the high-shrink department for supermarkets, at 3.60 percent of sales at retail. Health and beauty aids were also high, at 1.30 percent. The low-shrink department was dairy, at 0.29 percent.

The supermarkets had an extraordinarily low shrinkage goal at retail of 0.46 percent, and fell short of this goal by 43 percent. The shrinkage target at cost was 0.71 percent, some 27 percent below the actual shrink percentage of 0.97 percent.

As is true generally, the majority of supermarket retailers who fail to meet their shrinkage goals have the loss prevention department investigate the cause,

Shrinkage Results

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		Under $100		$100 to $399		$400 to $999		$1,000 or More	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	19	19	3	3	3	3	6	6	7	7
At Retail										
Total company-average shrinkage percent	0.81%	0.75%	0.58%	0.64%	0.66%	0.65%	1.00%	0.84%	0.73%	0.73%
	(10)	*(10)*	*(1)*	*(1)*	*(2)*	*(2)*	*(4)*	*(4)*	*(3)*	*(3)*
Number of responses in the following ranges:										
Less than 1.50%	9	9	1	1	2	2	4	4	2	2
1.50% to 1.99%	1	1	-	-	-	-	-	-	1	1
2.00% or more	-	-	-	-	-	-	-	-	-	-
Total company-average shrinkage dollars *(In $ thousands)*	$6,553	$5,693	$230	$274	$1,469	$1,212	$5,361	$4,035	$17,183	$16,202
	(9)	*(9)*	*(1)*	*(1)*	*(2)*	*(2)*	*(4)*	*(4)*	*(2)*	*(2)*
At Cost										
Total company-average shrinkage percent	0.97%	1.03%	-	-	0.45%	0.27%	1.10%	0.98%	1.24%	1.89%
	(4)	*(4)*			*(1)*	*(1)*	*(2)*	*(2)*	*(1)*	*(1)*
Number of responses in the following ranges:										
Less than 0.50%	2	2	-	-	1	1	1	1	-	-
0.50% to 1.49%	1	-	-	-	-	-	-	-	1	-
1.50% or more	1	2	-	-	-	-	1	1	-	1
Total company-average shrinkage dollars *(In $ thousands)*	$29,542	$38,259	-	-	$722	$374	$7,722	$6,332	$102,001	$140,000
	(4)	*(4)*			*(1)*	*(1)*	*(2)*	*(2)*	*(1)*	*(1)*

( ) = Number of responses to this question

Retailers' Targeted Shrinkage Percentage

	Targeted Shrinkage at Retail	Targeted Shrinkage at Cost
All participants	0.46% *(8)*	0.71% *(4)*
Participants by 1990 revenue in $ millions:		
Under $100	-	-
$100 to $399	0.50 *(2)*	0.45 *(1)*
$400 to $999	0.44 *(3)*	0.95 *(2)*
$1,000 or more	0.46 *(3)*	0.50 *(1)*

( ) = Number of responses to this question

Actions Taken at Locations That Fail to Meet Their Shrinkage Goal

	Stores	Whse/DC
Number of responses to the question	15	7
Loss prevention department investigates the cause of shrinkage	87%	100%
Implement additional security and loss prevention controls at the store	73	71
Increase frequency of physical inventory procedures at the location	67	57
Replace personnel at the location	67	43
Replace management at the location	67	29
Internal audit/shrinkage control department investigates the cause of shrinkage	60	43
Other	27	14

Shrinkage by Department in 1990

Shrinkage Percentage at Retail

Dairy	Grocery	Health & beauty aids	Meats	Pharmacy	Produce	Other grocery
0.29% *(5)*	0.53 *(10)*	1.30 *(5)*	0.79 *(5)*	[illegible]	3.60 *(5)*	0.34 *(4)*

( ) = Number of responses to this question

and/or they implement additional loss prevention controls at the store. Among the controls frequently implemented were increased physical inventories and CCTV. In addition, some 67 percent of the respondents replace personnel at the store, and 67 percent replace management at the store. Forty-three percent replace personnel at the warehouse/DC location, and 29 percent replace management at the warehouse/DC.

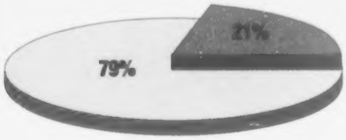
Expenses and Capital Expenditures Loss prevention expenses increased by four percent, to 0.24 percent of sales. In real dollars, the companies spent an average of $1.9 million on loss prevention, an eight percent increase from 1989.

The supermarkets spent 79 percent of the loss prevention budgets on people-related expenses, with 63 percent going for guards/detectives and other loss prevention personnel. Companies with revenues below $100 million spent the largest portion of their budgets, 46 percent, on outside services.

The supermarkets' capital expenditures averaged $172,000 in 1990. On a same-respondent basis, spending increased 37 percent from 1989. Some 32 percent of the 1990 expenditures went for CCTV, 27 percent went for security fixtures and other perimeter devices, and 25 percent went for POS monitoring systems.

Breakdown of Security and Loss Prevention Expenses

(Based on 17 responses)



People Cost:	
Employee guards/detectives	27%
External guards/detectives	11
Prevention employees other than guards/detectives	25
Outside services	12
Incentive and reward programs	2
Employee awareness programs	2
Total people cost	**79%**

Other Security Cost:	
Alarms & physical facilities	11%
CCTV lease/rent/depreciation	3
EAS lease/rent/depreciation	-
Other electronic equipment lease/rent/depreciation	1
Other	6
Total other security cost	**21%**

Analysis of Security and Loss Prevention Expenses

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	19	19	3	3	3	3	6	6	7	7
Average expenses as a percent of sales	0.24%	0.23%	0.22%	0.18%	0.51%	0.45%	0.20%	0.19%	0.16%	0.18%
	(19)	*(19)*	*(3)*	*(3)*	*(3)*	*(3)*	*(6)*	*(6)*	*(7)*	*(7)*
Number of responses in the following ranges:										
Less than 0.10%	5	6	-	-	1	1	1	2	3	3
0.10% to 0.24%	8	6	2	2	-	-	3	2	3	2
0.25% to 0.49%	4	6	1	1	-	1	2	2	1	2
0.50% and more	2	1	-	-	2	1	-	-	-	-
Average expenses	$1,941	$1,791	$109	$83	$1,121	$780	$1,120	$984	$3,782	$3,650
(in $ thousands)	*(19)*	*(19)*	*(3)*	*(3)*	*(3)*	*(3)*	*(6)*	*(6)*	*(7)*	*(7)*

( ) = Number of responses to this question

Apprehensions Customer apprehensions declined by six percent in 1990, while employee apprehensions increased by eight percent. On average, there were 2,563 customer apprehensions in 1990 and 246 employee apprehensions per company.

While employees accounted for only eight percent of the apprehensions, they accounted for more than 30 percent of the dollars recovered. The average dollars recovered per company was $86,000 from customer apprehensions and $45,000 from employee apprehensions.

The supermarkets reported that, on average, an additional $139,000 was stolen by employees but not recovered.

Security Devices All the supermarkets used guards/detectives in their loss prevention programs. Guards/detectives were also rated the most effective security device, with 81 percent of the respondents including them among their top-four security devices. Employee awareness programs were the second most popular device, and CCTV and mirrors were tied for number three.

Apprehensions and Dollars Recovered

	Customers		Employees	
	1990	1989	1990	1989
Total number of survey participants	19	19	19	19
Total aggregate apprehensions	38,439 *(15)*	40,719 *(15)*	3,442 *(14)*	3,182 *(14)*
Total value of merchandise recovered at retail *(in $ thousands)*	$1,210 *(14)*	$726 *(14)*	$496 *(11)*	$354 *(10)*
Total value of unrecovered merchandise employees admitted to stealing at retail *(in $ thousands)*	NA	NA	$1,252 *(9)*	$1,111 *(7)*
Average value of merchandise recovered per apprehension at retail	$111 *(14)*	$110 *(14)*	$166 *(11)*	$212 *(10)*

( ) = Number of responses to this question
NA=Information is not applicable

Security Devices

	Devices Presently Utilized	Company Plans on Implementing in the Future	Four Most Effective Security Devices				Four Least Effective Security Devices			
			#1	#2	#3	#4	#1	#2	#3	#4
Total responses to the question	18	13	15	16	16	16	14	13	14	14
Guards/detectives	100%	-%	33%	31%	19%	-%	-%	-%	7%	-%
Employee awareness programs	83	15	13	6	13	13	14	-	7	14
CCTV	78	15	20	31	13	6	14	8	-	-
Mirrors	78	-	-	-	6	-	21	23	14	14
Pre-employment honesty testing	61	23	-	19	6	19	7	15	-	7
Security fixtures	61	-	-	-	6	-	14	-	14	7
Lock boxes, cables & chains	56	-	7	-	-	-	7	8	7	7
Drug testing	56	15	-	6	-	13	-	-	7	7
Employee package control programs	56	-	-	-	-	-	14	31	-	-
Limited access areas	50	-	-	-	-	6	-	8	14	7
Exception monitoring software	50	23	-	13	-	13	-	-	14	14
POS systems	44	15	7	-	13	6	-	8	-	7
Observation booths	44	-	-	-	13	13	7	-	7	7
Incentive programs	39	15	13	-	-	6	-	-	-	7
EAS non-ink type tags	22	8	7	-	-	6	-	8	-	-
EAS ink type tags	17	-	-	-	6	-	-	-	7	-
Fitting room attendants	6	-	-	-	6	-	-	-	-	-
Subliminal behavior packages	6	8	-	-	-	-	-	-	-	-

Mirrors were rated the least effective security device, with 67 percent of the respondents ranking them among the bottom four. Surprisingly, 78 percent of the supermarkets are still utilizing mirrors.

Exception monitoring software and pre-employment honesty testing were the two devices most likely to be implemented in the future. Each was specified by 23 percent of the respondents.

Physical Inventory Counting Eighty-one percent of the respondents took less than one day to perform physical inventories and 13 percent required one day. The supermarket respondents required an average of 30 people. Some 76 percent of the personnel utilized were from an outside service and 24 percent were employees.

Analysis of Complete Store Physical Inventories

		PARTICIPANTS BY RETAIL STORE SIZE					
	All Participants	**Under 2,500 Feet**	**2,500 to 7,499 Feet**	**7,500 to 19,999 Feet**	**20,000 to 49,999 Feet**	**50,000 to 99,999 Feet**	**100,000 Feet or More**
Number of responses to this question	16	-	-	-	11	4	1
Number of days per store for a physical inventory							
Less than one day	81%	-	-	-	91%	75%	-
One day	13%	-	-	-	9%	25%	-
One-and-a-half days	-	-	-	-	-	-	-
Two days	6%	-	-		-	-	100%
Number of people per store to perform a physical inventory							
Average	30 *(15)*			-	14 *(10)*	36 *(4)*	175 *(1)*
Less than 5	-				-	-	-
5 to 10	3				3	-	-
11 to 29	9				7	2	-
30 or more	3					2	1

( ) = Number of responses to this question

All the respondents took complete physical inventories during the year. An inventory service was utilized by 89 percent of the supermarkets, and 67 percent performed complete physical counts on a quarterly basis.

The estimated average cost of physical inventory procedures in 1990 was $339,000. The companies with revenues of $1 billion or more estimated spending $611,000 on average, companies with revenues of $400-$999 million averaged $306,000, companies with revenues of $100-$399 million spent $140,000 on average, and companies with revenues of less than $100 million spent an average of $42,000.

Only 24 percent of the retailers performed cycle counts in 1990. Also, contrary to other segments analyzed, the supermarkets who performed cycle counts had a higher shrinkage percentage than those that did not. The companies that performed cycle counts normally counted the entire inventory in this way 12 times or more per year.

In the next three years, 40 percent of the respondents plan to count inventory by scanning each item's barcode. Forty percent plan to utilize in-store final inventory reports, 40 percent plan to perform more frequent physical inventories, and 20 percent plan to conduct less.

Twenty-seven percent of the retailers plan to use spreadsheet scheduling of store physicals; 20 percent plan to do cycle counts by SKU; and 20 percent plan to do cycle counts by department or merchandising class.

Analysis of Cycle Counts Performed at the Stores

		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS			
	All Participants	**Under $100**	**$100 - $399**	**$400 - $999**	**$1,000 or More**
Retailers performing cycle counts at the store level					
Number of responses to this question	17	2	3	6	6
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	24%	-	67%	17%	17%
Cycle counts are not performed	76%	100%	33%	83%	83%
Shrinkage results of companies who perform cycle counts					
Number of responses to this question	13	1	3	6	3
At Retail					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	0.93% *(3)*	-	0.66% *(2)*	1.49% *(1)*	-
Cycle counts are not performed	0.88% *(6)*	0.58% *(1)*	-	0.84% *(3)*	1.08% *(2)*
At Cost					
Cycle counts are performed rather than complete store physical inventories	-	-	-	-	-
Cycle counts are performed in addition to complete store physical inventories	-	-	-	-	-
Cycle counts are not performed	0.97% *(4)*	-	0.45% *(1)*	1.10% *(2)*	1.24% *(1)*

( ) = Number of responses to this question

OVERALL FINDINGS

Note: The overall findings exclude the supermarket retailers who participated in the survey. A separate segment analysis was performed for the supermarket industry and is included in the report.

At retail, overall shrinkage as a percent of sales decreased on a same respondent basis by six percent in 1990, from 2.22 percent to 2.08 percent. Shrinkage declined for each revenue group as well, with the greatest decline occurring among companies with revenues of $100-$399 million; these companies' shrinkage dipped by 12 percent.

At cost, shrinkage decreased, from 1.73 percent to 1.58 percent. On a same-respondent basis, shrinkage decreased from 1.73 to 1.68, a three percent decline. Shrinkage at cost increased, however, for all companies with revenues of $100 million or more.

In 1990, total dollars lost to shrinkage at retail was $1.4 billion (based on 70 companies). The average loss was $20.1 million, up from $19 million in 1989. The total lost at cost averaged $10.8 million, up from $9.1 million in 1989.

On a same-respondent basis, real dollar shrinkage at cost increased by 23 percent; at retail, it increased by eight percent.

The highest shrinkage departments for general merchandise were fashion accessories and costume jewelry, at 6.45 percent. The low-shrink department was shoes, at 1.65 percent.

Shrinkage Results

	PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS									
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	136	136	50	50	38	38	19	19	29	29
At Retail										
Total company-average shrinkage percent	2.08%	2.23%	1.85%	1.90%	2.46%	2.79%	1.84%	1.89%	2.02%	2.14%
	(79)	*(80)*	*(25)*	*(25)*	*(25)*	*(25)*	*(12)*	*(12)*	*(17)*	*(18)*
Number of responses in the following ranges										
Less than 1.50%	24	24	11	9	6	9	4	4	3	2
1.50% to 1.99%	24	22	7	6	9	7	2	3	6	6
2.00% or more	31	34	7	10	10	9	6	5	8	10
Total company-average shrinkage dollars	$20,106	$19,007	$1,176	$1,210	$4,745	$4,979	$12,196	$12,470	$76,201	$67,261
(In $ thousands)	*(70)*	*(71)*	*(22)*	*(22)*	*(22)*	*(22)*	*(11)*	*(11)*	*(15)*	*(16)*
At Cost										
Average shrinkage percent	1.58%	1.73%	1.73%	2.13%	1.07%	1.05%	1.39%	0.63%	2.01%	1.97%
	(36)	*(32)*	*(18)*	*(16)*	*(9)*	*(8)*	*(3)*	*(2)*	*(6)*	*(6)*
Number of responses in the following ranges										
Less than 0.50%	8	7	5	4	2	1	-	1	1	1
0.50% to 1.49%	15	15	8	8	5	5	1	1	1	1
1.50% or more	13	10	5	4	2	2	2	-	4	4
Total company-average shrinkage dollars	$10,784	$9,054	$444	$377	$2,053	$1,868	$9,374	$5,701	$57,261	$43,612
(In $ thousands)	*(31)*	*(27)*	*(17)*	*(15)*	*(6)*	*(5)*	*(3)*	*(2)*	*(5)*	*(5)*

( ) = Number of responses to this question

Retailers' Targeted Shrinkage Percentage

	Targeted Shrinkage at Retail	Targeted Shrinkage at Cost
All participants	1.84% *(64)*	1.15% *(24)*
Participants by 1990 revenue in $ millions:		
Under $100	1.61 *(18)*	0.92 *(11)*
$100 to $399	2.43 *(17)*	1.01 *(6)*
$400 to $999	1.62 *(13)*	1.35 *(3)*
$1,000 or more	1.66 *(16)*	1.84 *(4)*

( ) = Number of responses to this question

Actions Taken by Companies That Fail to Meet Their Shrinkage Goal

	Stores	Whse/DC
Number of responses to the question	98	55
Loss prevention department investigates the cause of shrinkage	80%	82%
Implement additional security and loss prevention controls at the location	79	64
Internal audit/shrinkage control department investigates the cause of shrinkage	67	73
Increase frequency of physical inventory procedures at the location	50	29
Replace personnel at the location	43	25
Replace management at the location	41	20
Other	24	15

[illegible]

Shrinkage Percentage at Retail

General Merchandise Departments	Shrinkage Percentage at Retail
Apparel-Juniors	2.42% *(36)*
Apparel-Ladies	3.22 *(41)*
Apparel-Men	2.32 *(46)*
Camera-VCR	3.28 *(19)*
Fashion Accessories & Costume Jewelry	6.45 *(43)*
Fine Jewelry	3.10 *(16)*
Health & Beauty Aids	2.78 *(21)*
Pharmacy	3.58 *(4)*
Radios, Televisions & Stereos	3.51 *(22)*
Records, Cassettes, CDs & Videotapes	3.88 *(16)*
Shoes	1.65 *(30)*
Sporting Goods	4.33 *(16)*
Toys, Hobbies & Games	1.84 *(27)*

( ) = Number of responses to this question

Some 74 percent of retailers reported that they had a targeted shrinkage goal, and the larger the company the more likely they were to have a goal. What was the goal? At retail, it was 1.84 percent. At cost, it was 1.15 percent. The shrinkage goal at retail was 12 percent below the actual shrinkage reported. The at-cost goal was 27 percent below the actual shrink percentage.

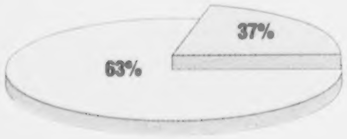
Companies that did not meet their shrinkage goals were most likely to have the loss prevention department investigate the cause of the shrinkage. The next most popular step was to implement additional loss prevention controls, followed by an investigation by the internal audit/shrinkage control department.

Expenses and Capital Expenditures On a same-respondent basis, loss prevention expenses as a percent of sales increased to 0.34 percent in 1990 from 0.33 percent in 1989, a three percent rise. Companies with revenues of $100 million-$399 million had the highest expenses at 0.41 percent. Department store respondents had the highest expenses as a percent of sales—0.47 percent—and drug chains had the lowest expenses at 0.21 percent.

People costs accounted for the lion's share of loss prevention expenses—63 percent. The segment with the highest people-related expenses was department stores, at 80 percent. The specialty apparel and specialty hardlines

Breakdown of Security and Loss Prevention Expenses

(Based on 120 responses)



People Cost:	
Employee guards/detectives	20%
External guards/detectives	8
Prevention employees other than guards/detectives	26
Outside services	4
Incentive and reward programs	3
Employee awareness programs	2
Total people cost	**63%**

Other Security Cost:	
Alarms & physical facilities	19%
CCTV lease/rent/depreciation	4
EAS lease/rent/depreciation	8
Other electronic equipment lease/rent/depreciation	1
Other	5
Total other security cost	**37%**

Analysis of Security and Loss Prevention Expenses

			PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS							
	All Participants		**Under $100**		**$100 to $399**		**$400 to $999**		**$1,000 or More**	
	1990	1989	1990	1989	1990	1989	1990	1989	1990	1989
Total number of survey participants	136	136	50	50	38	38	19	19	29	29
Average expenses as a percent of sales	0.34% *(118)*	0.33% *(117)*	0.31% *(38)*	0.30% *(38)*	0.41% *(34)*	0.39% *(34)*	0.30% *(19)*	0.31% *(18)*	0.34% *(27)*	0.34% *(27)*
Number of responses in the following ranges:										
Less than 0.10%	23	23	9	9	5	6	4	4	5	4
0.10% to 0.24%	32	32	9	11	11	10	4	4	8	7
0.25% to 0.49%	35	35	15	14	7	7	7	6	6	8
0.50% and more	28	27	5	4	11	11	4	4	8	8
Average expenses *(in $ thousands)*	$2,787 *(118)*	$2,720 *(117)*	$182 *(39)*	$172 *(39)*	$801 *(33)*	$708 *(33)*	$2,079 *(19)*	$2,066 *(18)*	$9,477 *(27)*	$9,295 *(27)*

( ) = Number of responses to this question

respondents had a survey low of 52 percent. For companies with revenues of $1 billion or more, people costs accounted for 74 percent of loss prevention expenses. For companies with revenues below $100 million, however, "other" security costs accounted for 56 percent of loss prevention expenses, with the largest portion, 29 percent, going for alarms and physical facilities.

Capital expenditures averaged $522,000 per company (based on 90 companies) in 1990. On a same-respondent basis, capital expenditures increased by 23 percent. Mass merchant/general merchandise retailers had the highest average capital expenditures, $1.1 million, and specialty hardliners had the lowest average, $134,000. EAS equipment accounted for the greatest percentage of overall capital expenditures, 39 percent. CCTV accounted for 29 percent, POS systems accounted for 11 percent, security fixtures accounted for 10 percent, and other electronic equipment accounted for eight percent.

Apprehensions The respondents apprehended a total of 436,000 people in 1990—406,000 customers and 30,000 employees. Respondents apprehended an average of 4,365 customers and 299 employees per company. The average value of merchandise recovered at retail, however, was $255,000 per company from customer apprehensions, and $164,000 per company from employee apprehensions.

Employees, then, accounted for only about seven percent of the apprehensions but approximately 38 percent of the dollars recovered.

Also, employees admitted to stealing another $241,000 at retail per company that was not recovered.

Security Devices The most frequently used security device was employee awareness programs (83 percent). This was followed by POS systems (72 percent), closed circuit television (71 percent), guards/detectives (63 percent), and incentive programs (63 percent).

Apprehensions and Dollars Recovered

	Customers		Employees	
	1990	1989	1990	1989
Total number of survey participants	136	136	136	136
Total aggregate apprehensions	405,988 *(93)*	394,410 *(89)*	29,920 *(100)*	30,199 *(94)*
Total value of merchandise recovered at retail *(in $ thousands)*	$21,662 *(85)*	$19,327 *(81)*	$14,611 *(89)*	$13,178 *(85)*
Total value of unrecovered merchandise employees admitted to stealing at retail *(in $ thousands)*	NA	NA	$16,632 *(69)*	$11,730 *(63)*
Average value of merchandise recovered per apprehension at retail	$184 *(79)*	$223 *(76)*	$730 *(85)*	$625 *(80)*

( ) = Number of responses to this question
NA=Information is not applicable

Security Devices

	Devices Presently Utilized	Company Plans on Implementing in the Future	Four Most Effective Security Devices				Four Least Effective Security Devices			
			#1	#2	#3	#4	#1	#2	#3	#4
Total responses to the question	126	64	112	108	107	102	95	86	81	78
Employee awareness programs	83%	14%	35%	14%	9%	8%	1%	3%	7%	4%
POS systems	72	19	9	13	16	10	4	5	6	5
CCTV	71	9	13	10	15	8	5	5	9	5
Guards/detectives	63	-	11	12	8	10	4	3	2	9
Incentive programs	63	14	4	9	11	13	2	5	6	8
Mirrors	58	2	-	1	3	2	38	7	4	4
Lock boxes, cables & chains	55	2	3	6	8	4	2	12	15	9
Limited access areas	54	-	-	6	5	1	8	10	10	5
EAS non-ink type tags	49	8	13	6	7	12	2	5	2	8
Security fixtures	47	8	2	1	1	3	5	9	10	5
Employee package control programs	46	5	1	3	2	6	5	10	6	8
Pre-employment honesty testing	44	19	4	5	3	7	3	9	2	5
Exception monitoring software	40	38	3	8	5	8	2	-	4	6
Observation booths	31	2	-	-	-	2	4	5	7	4
Drug testing	29	25	1	4	4	6	4	3	5	5
Fitting room attendants	19	2	-	-	2	-	2	3	1	5
EAS ink type tags	10	14	2	-	2	1	1	2	1	1
Subliminal behavior packages	1	8	-	-	-	-	5	2	1	4
Other	8	-	-	4	-	1	-	-	-	-

The devices most likely to be implemented in the future are exception monitoring software (38 percent), drug testing (25 percent), pre-employment honesty testing (19 percent), and POS systems (19 percent). These devices are already in use at no less than 29 percent of the companies, so they figure to be very widely used in the future.

The security device rated most effective was employee awareness programs, followed by CCTV. The device rated least effective was mirrors.

Physical Inventory Counting There was a strong correlation between the performance of cycle counts and shrink reduction. Forty-three percent of respondents said they did cycle counts in addition to complete physical inventories, and for those companies, shrinkage as a percent of sales was 1.96 percent at retail and 1.05 percent at cost. Shrinkage for those companies that did not do cycle counts was 2.19 percent at retail and 2.29 percent at cost. This finding was generally consistent for all retail segments and sizes of companies.

Ninety-eight percent of the respondents performed complete physical inventories. Fifty-three percent used inventory counting services to perform physical inventories, and 53 percent used store employees from within the store. On average, the stores used 44 people to perform physicals, and 33 percent of these people were from outside services.

Fifty-one percent of the respondents took complete physicals in less than one day, and another 28 percent took it in one day. Only four percent took three days, the maximum period of time reported for physicals.

Analysis of Complete Store Physical Inventories

		PARTICIPANTS BY RETAIL STORE SIZE					
	All Participants	Under 2,500 Feet	2,500 to 7,499 Feet	7,500 to 19,999 Feet	20,000 to 49,999 Feet	50,000 to 99,999 Feet	100,000 Feet or More
Number of responses to this question	125	12	25	26	22	29	11
Number of days per store for a physical inventory							
Less than one day	51%	75%	64%	65%	45%	38%	9%
One day	28%	25%	16%	19%	32%	41%	36%
One-and-a-half days	8%	-	12%	8%	5%	7%	18%
Two days	8%	-	8%	-	9%	10%	27%
Two-and-a-half-days	1%	-	-	4%	-	-	-
Three days	4%	-	-	4%	9%	3%	9%
Number of people per store to perform a physical inventory							
Average	44 *(122)*	6 *(12)*	9 *(25)*	17 *(25)*	49 *(22)*	75 *(29)*	162 *(9)*
Number of responses in the following ranges:							
Less than 5	14	6	6	1	-	1	-
5 to 10	24	4	13	7	-	-	-
11 to 29	32	2	5	14	7	4	-
30 or more	52	-	1	3	15	24	9

( ) = Number of responses to this question

Forty-nine percent of the retailers took complete physical inventories annually and 35 percent took it semi-annually. Sixteen percent took complete physicals three times a year or more.

The average annual cost was $886,000. Companies with revenues of $1 billion or more averaged $3,075,000, companies with revenues of $400-$999 million spent $639,000, companies with revenues of $100-$399 million spent $320,000, and companies with revenues under $100 million averaged $93,000 annually.

In the future, 61 percent of the respondents plan to count inventory by scanning each item's barcode. Thirty-eight percent plan to record inventory SKU information; 25 percent plan to do less frequent physicals, while 16 percent plan to increase them.

Thirty percent of the retailers plan to do cycle counts by SKU; 22 percent plan to use in-store final inventory reports; 21 percent plan to do cycle counts by department or merchandising class; and 14 percent plan to use spreadsheet scheduling of store physicals.

Analysis of Cycle Counts Performed at the Store

		PARTICIPANTS BY 1990 SALES VOLUME IN $ MILLIONS			
	All Participants	**Under $100**	**$100 - $399**	**$400 - $999**	**$1,000 or More**
Retailers performing cycle counts at the store level					
Number of responses to this question	132	47	38	19	28
Cycle counts are performed rather than complete store physical inventories	2%	-	3%	-	4%
Cycle counts are performed in addition to complete store physical inventories	43%	45%	50%	42%	32%
Cycle counts are not performed	55%	55%	47%	58%	64%
Shrinkage results of companies who perform cycle counts					
Number of responses to this question	113	42	34	15	22
At Retail					
Cycle counts are performed rather than complete store physical inventories	1.70% *(1)*	-	-	-	1.70% *(1)*
Cycle counts are performed in addition to complete store physical inventories	1.96% *(34)*	1.44% *(10)*	2.41% *(13)*	1.51% *(6)*	2.34% *(5)*
Cycle counts are not performed	2.19% *(43)*	2.15% *(14)*	2.51% *(12)*	2.17% *(6)*	1.91% *(11)*
At Cost					
Cycle counts are performed rather than complete store physical inventories	1.38% *(1)*	-	1.38% *(1)*	-	-
Cycle counts are performed in addition to complete store physical inventories	1.05% *(18)*	0.81% *(9)*	0.79% *(5)*	1.68% *(1)*	1.99% *(3)*
Cycle counts are not performed	2.29% *(16)*	2.65% *(9)*	1.43% *(3)*	1.25% *(2)*	3.00% *(2)*

( ) = Number of responses to this question

Chain Store Age
EXECUTIVE
January 1992/Section Three

600
500
400
300
200
100

ARTHUR
ANDERSEN

ARTHUR ANDERSEN & CO SC

SECOND ANNUAL SURVEY OF RETAIL CREDIT TRENDS

METHODOLOGY

This is not a pretty time for retailers. Real growth in retail sales is widely predicted to average about 1.5% annually in the early 1990s compared to 3% in the 1980s. Consequently, retailers are digging deep into their bag of tricks to do everything they can to spur reluctant, value-hungry, sales-conscious consumers to spend in an almost stagnant economy.

And, as retailers take advantage of the sophisticated demographic information gleaned from credit card operations, credit cards are proving a powerful targeted marketing tool in the effort to increase sales. While credit sales account for about a fifth of total retail sales at present, the trend has been steadily upward.

Today, over a billion credit cards circulate in the United States. Credit card spending approached $500 billion in 1991.

Operating in what has been termed the worst retail economy in decades, retailers are convinced that consumer credit will expand, that credit sales will continue to increase as a percentage of total sales, and that credit will play an increasingly important role.

Credit providers and processors continue to expand credit availability, which retailers hope will fuel an increase in consumer spending throughout 1992.

Credit will continue to be an integral part of a successful retailing strategy in the 1990s. Credit managers will need to work with retail marketers and merchants to be successful in the near "zero sum game" of retailing today.

Consumer information, including customer profiles and buying patterns, will fuel the micro-marketing strategies of the future. Credit costs are escalating, personal bankruptcies are skyrocketing, and retailers see no convenient way to reduce either as credit sales become a larger and larger slice of the total retail pie.

Services offered to retailers by credit providers and processors, including third-party cards (MasterCard, Visa, etc.) and private-label providers, will continue to be enhanced.

These and other findings are detailed within this supplement, which presents the results of the second Survey of Retail Credit Trends conducted by Arthur Andersen, a worldwide professional services firm. The co-conductor of this survey is *Chain Store Age Executive*, which collaborated with Arthur Andersen in the design and distribution of the survey.

Methodology: In July 1991, a jointly produced questionnaire was mailed to 2,000 retailers across the country after being field-tested with several retailers.

We received responses from 170 companies, up from 159 in 1990, an indication that retailers continue to have a substantial interest in this topic. The size of the response rate, 9%, has made it possible to draw comparisons by size of category and class of trade—and also size of company within each class of trade.

Approximately 85% of the retailers who responded to this year's survey participated last year. This year's survey collected some data for both years, allowing year-to-year comparisons for much of the information.

The median of the responses is reported as the average of the statistical data unless otherwise indicated. Some questions called for multiple answers, so total responses don't always equal 100%. Some participants didn't choose to answer all the questions. Only data with response rates sufficient to be meaningful have been published.

SURVEY DEMOGRAPHICS

	PERCENT PARTICIPANTS BY 1991 SALES VOLUME IN $ MILLIONS				
	All Participants	$0-$50	$50-$200	$200-$999	$1000 or more
Convenience stores	7.88	30.77	46.15	7.69	15.38
Department stores	12.12	20.00	15.00	35.00	30.00
Discount stores	7.88	53.85	15.38	30.77	0.00
Mass merchants	4.85	37.50	25.00	25.00	12.50
Home centers	8.48	35.71	21.43	35.71	7.14
Specialty/apparel	21.21	57.14	17.14	17.14	8.57
Specialty/non-apparel	28.48	44.68	25.53	25.53	4.26
Supermarkets	9.09	20.00	26.67	33.33	20.00
Total participants	100.00	40.61	23.03	25.45	10.91

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OVERALL FINDINGS

The inaugural year of the 90s witnessed a traumatized retail economy and several major financial casualties in an industry which was attempting to move from the "go-go" years of the 80s to the realities of the new decade.

Increases in comparable store sales were marginal, even for the strong performers, and many retailers had negative comparable store sales results. A weak national economy combined with the Persian Gulf crisis to jolt consumers.

Indices of consumer confidence experienced a free fall between July 1990 and January 1991, leveling out at below 1982 recession levels. The speed of this descent appeared to surprise retailers and economists alike.

As 1991 began, optimism receded—watching CNN's Bernard Shaw reporting live from Baghdad seemed to take priority over browsing and shopping in the nation's malls. Sales throughout the first three quarters of 1991 continued to disappoint many in management.

In response to this cloudy economic environment, veteran retailers continue to reinvent their businesses. "Customer focus," "customer service" and "thinking like the customer" are again mainstays of the retail vocabulary. Retailers realize that their industry has become a slower—if not "no-growth"—segment of a sluggish national economy. In many markets, retailers are playing a "zero sum game," where each winner creates a loser.

Competitive advantage works in both growth and no-growth economies, and the retailers responding to the second annual Survey of Retail Credit Trends seek some of their advantage through the credit function.

Retail credit continues to be a significant weapon in their arsenal to steal competitor's customers. The successful retailers of the 90s will, among other things, ensure that the credit function actively serves their marketers and merchants by translating myriad customer data into actionable customer profile information.

The credit function will help build customer loyalty with frequent-shopper programs, bonuses and appreciation programs. Technology for accumulating and sorting data will help merchants react faster to important trends. In short, retail credit will continue to play a critical role, if not the principal role, in driving the winners toward success.

Sales trends: In spite of gloomy economic news and, in many cases, disappointing year-to-date results, retailers we surveyed again predict that retail sales, both in total and on a comparable store basis, will have increased in 1991.

In last year's survey, a surprising 60% predicted an increase in comparable store sales, while only 13% predicted a decline. In 1991, our respondents are again optimistic.

Sixty-four percent project an increase in comparable store sales, 23% expect them to remain flat and 13% expect a decline. In discussing these results with several respondents, it was clear that many retailers believe it won't be difficult to surpass the prior year's comparable store sales.

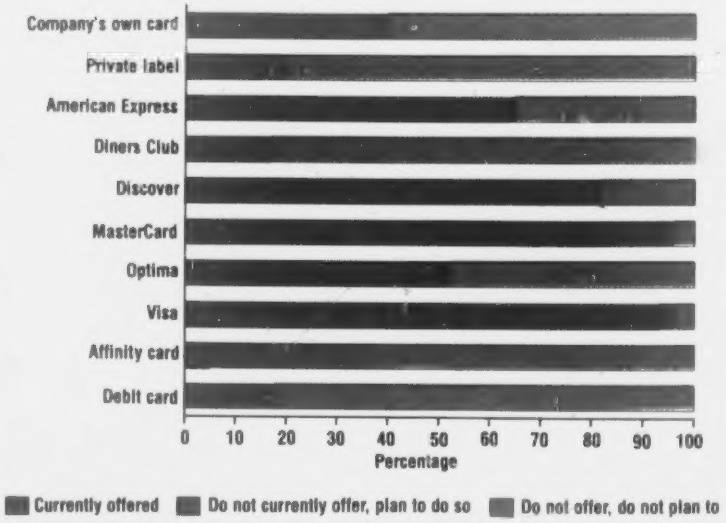
Retailers again report that credit sales are growing at a healthy pace, and they predict that credit sales as a percentage of total sales will continue to increase. Fifty-four percent expect an increase, 43% project no change and only 3% anticipate a decline.

On average, credit sales now represent 35% of total sales for companies operating their own credit function in house, a one percentage point increase over the prior year's results. For those respondents using private-label services, credit sales represent 15% of total sales, a four percentage point increase over the prior year.

However, MasterCard, Visa, American Express and other third-party credit providers achieved the highest gains. Third-party credit sales are 25% of total sales so far in 1991, increasing 2.5 percentage points over 1990 figures for the same respondents.

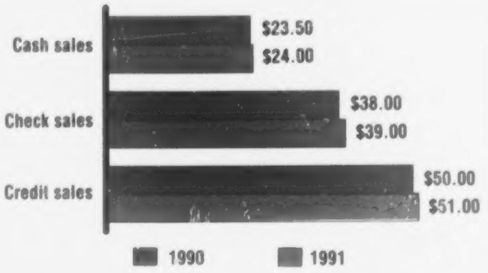
Forty-five percent of the respondents also report that the number of third-party credit cards accepted has increased over the last two years, while only 3% report that the number has decreased. This trend reflects the aggressive marketing efforts mustered by the third-party card providers as well as gains made by Discover Card in the last 24 months.

TYPE OF CREDIT OFFERED



OVERALL FINDINGS

AVERAGE SALES TRANSACTION AMOUNTS



AVERAGE SALES TRANSACTIONS*

	PARTICIPANTS BY 1991 SALES VOLUME IN $ MILLIONS							
	$0-$50		$50-$200		$200-$999		$1,000 OR MORE	
	1991	1990	1991	1990	1991	1990	1991	1990
Cash	32.00	30.00	15.50	13.00	19.00	20.00	22.50	20.50
Check	50.00	49.00	27.00	25.00	39.00	36.50	39.00	36.00
Credit	60.00	52.50	40.00	38.00	53.00	52.00	50.00	48.00

*Dollars

Approximately 70% of this year's respondents now accept Discover, and another 10% expect to do so within the next 18 months. Approximately 64% of this year's respondents accept American Express. Virtually all the respondents accept MasterCard and Visa, with 6% utilizing an affinity card, which is co-branded with the company's name and logo.

During 1991, average transaction for cash sales increased 2.1%, while average credit transaction increased by 2%. The average credit transaction for this year's respondents increased from $50 to $51 and this year again represents approximately twice the average cash transaction.

In 1991, respondents report a slight increase in average check sales—from $38 to $39 per transaction. Private-label credit transactions increased dramatically from $47 to $55, the largest increase reported by survey participants.

Of the third-party providers, American Express, as expected, reports the highest average transaction amount at $55 for both 1991 and 1990. MasterCard and Visa are a close second at $48 for both years, and average Discover transactions are reported at $42, a 5% increase over the prior year's experience for the same respondents. Discover appears to be making inroads both with retailers and consumers.

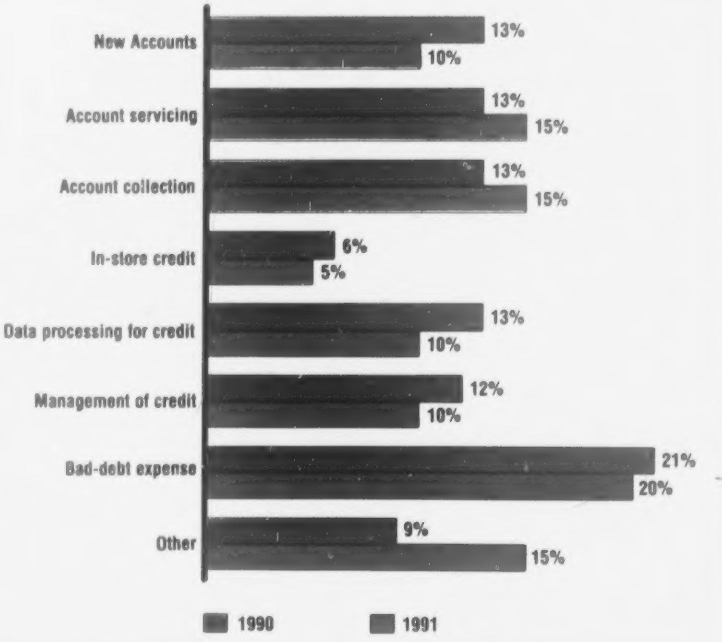
About one-third of the respondents have attempted to quantify the incremental sales generated from their credit card operations. These respondents report that credit cards produce incremental

PERCENTAGE OF TOTAL TRANSACTIONS*

	PARTICIPANTS BY 1991 SALES VOLUME									
	All respondents		$0-$50 million		$50-$200 million		$200-$999 million		over $1 billion	
	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990
Cash	33.0	30.8	27.0	27.0	35.0	40.0	43.0	41.0	51.0	42.0
Check	27.5	30.0	30.0	30.0	29.0	29.0	25.0	25.0	26.0	27.0
Credit	35.0	34.6	40.0	40.0	20.0	20.0	30.0	30.0	33.0	38.0

*Results represent the median, therefore total responses may not equal 100%

COST OF CREDIT ACTIVITIES AS A PERCENTAGE OF TOTAL CREDIT COSTS



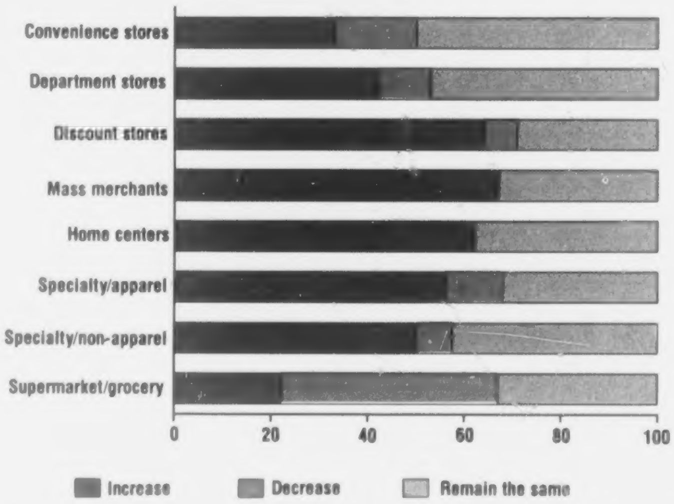
OVERALL FINDINGS

sales of anywhere from 5% to 20%, the majority report a 20% incremental sales experience. Retailers are convinced that if they stopped accepting credit cards, sales would plummet within six months.

Based on the results of this year's survey, it seems that the respondents either don't believe—or don't care to listen to—those who argue that the consumer intends to, and should, de-leverage his personal balance sheet at the expense of consumption.

They are not completely alone in this view. The April 1991 Bernstein Research report, produced by Sanford C. Bernstein & Co. Inc., contains a contrary view. It suggests that "the consumer still has an ample margin of safety even after the debt accumulation of the 1980s . . . and has financial characteristics superior to any other group of borrowers."

DISCOUNT RATES FORECAST FOR THE NEXT 18 MONTHS



DISCOUNT RATES CHARGED BY 3RD PARTY PROVIDERS*

	Convenience stores	Department stores	Discount stores	Mass merchants	Home centers	Specialty/ apparel	Specialty/ non-apparel	Supermarkets
American Express	3.00	3.13	3.00	3.00	3.00	3.50	3.45	3.20
Diners Club	0.00	3.75	3.55	0.00	0.00	3.13	3.00	00.0
Discover	3.00	1.67	1.60	1.40	1.50	1.75	1.80	1.85
MasterCard	3.00	1.67	1.60	1.71	1.61	1.76	1.87	2.00
Optima	3.00	3.13	2.00	0.00	1.90	3.13	3.00	1.30
Private-Label	0.00	1.38	0.00	1.50	2.00	2.00	1.00	00.0
Visa	3.00	1.67	1.60	1.71	1.59	1.77	1.86	2.00

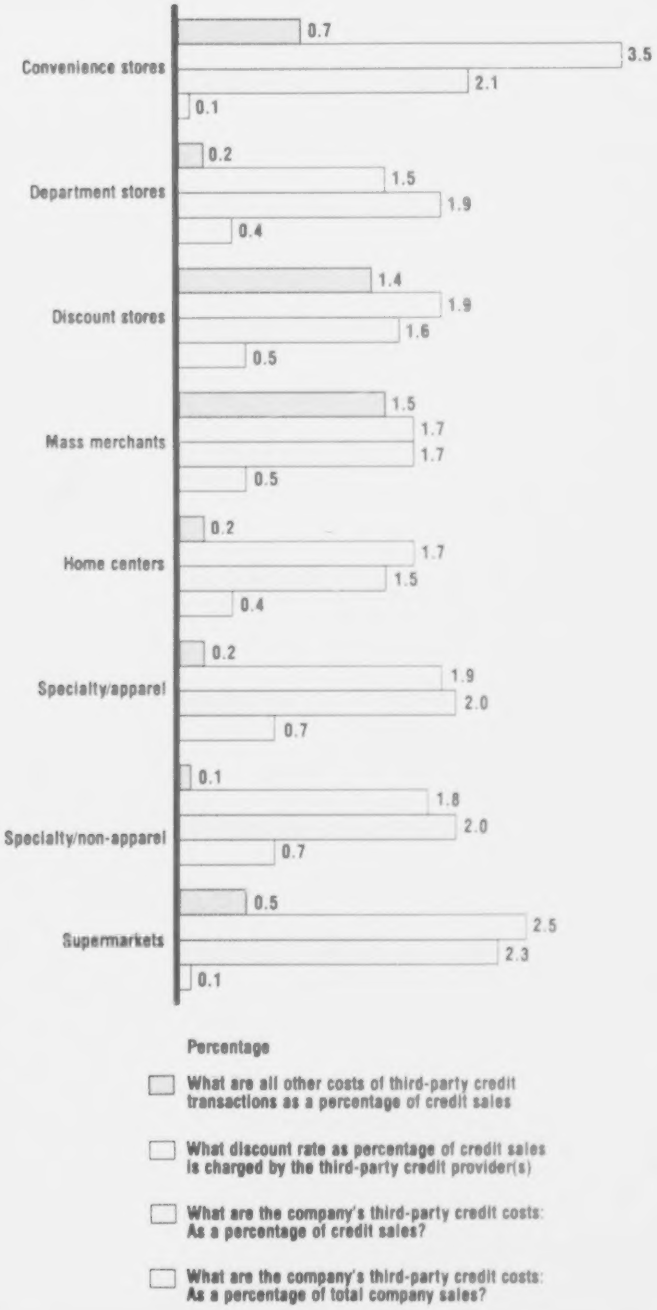
*Median percent

MARKETING TECHNIQUES USED WITH COMPANY-OWNED CREDIT CARDS

	PERCENT PARTICIPANTS BY 1991 SALES VOLUME IN $ MILLIONS											
	$0-$50			$50-$200			$200-$999			$1,000 or more		
	Use	Don't use, plan to	Don't use, no plans	Use	Don't use, plan to	Don't use, no plans	Use	Don't use, plan to	Don't use, no plans	Use	Don't use, plan to	Don't use, no plans
Billing stuffers	66.67	11.11	22.22	62.50	0.00	37.50	90.91	0.00	9.09	77.78	11.11	11.11
Promotional mailings	72.22	11.11	16.67	50.00	25.00	25.00	100.00	0.00	0.00	88.89	0.00	11.11
Discounts/coupons	47.06	5.88	47.06	68.75	0.00	31.25	63.64	9.09	27.27	66.67	22.22	11.11
Frequent shopper programs	12.50	18.75	68.75	12.50	25.00	62.50	9.09	63.64	27.27	37.50	37.50	25.00
Future promotions information	37.50	12.50	50.00	12.50	12.50	75.00	81.82	18.18	0.00	66.67	0.00	33.33
Seasonal ad books	23.53	23.53	52.94	37.50	0.00	62.50	72.73	9.09	18.18	62.50	0.00	37.50
Merchandise for credit customers only	18.75	6.25	75.00	0.00	0.00	100.00	30.00	20.00	50.00	12.50	12.50	75.00
More lenient credit for specific seasons	23.53	5.88	70.59	18.75	0.00	81.25	45.45	18.18	36.36	66.67	0.00	33.33

OVERALL FINDINGS

THIRD PARTY CREDIT COSTS



The Bernstein report also maintains that although "the quality of the consumer sector's balance sheet has eroded continuously throughout the postwar period, the consumer is still the strongest borrower." Thus, retailers' optimism about consumer credit expansion has some foundation; their hopes clearly rest on a consumer-driven recovery.

Cost of credit: Retailers continue to face increasing costs in their credit functions. Rapidly escalating personal bankruptcy rates and bankruptcy write-offs are the new phenomenon of the 1990s.

Retailers who offer their own credit also report a substantial increase in the total number of credit card accounts, with an average increase of 10% reported. Presumably, this reflects the aggressive credit promotion campaigns launched by these respondents.

Bankruptcy write-offs reported by respondents offering their own credit increased a whopping 30% between 1990 and 1991. According to the American Bankruptcy Institute (ABI), over 800,000 personal bankruptcy cases were filed in the 12-month period ending June 30, 1991, a 21% increase from the prior year.

The *Chicago Tribune* quoted Samuel Gerdano, executive director of the ABI, who contends that "the bankruptcy boom is here to stay unless Americans reduce their debt load."

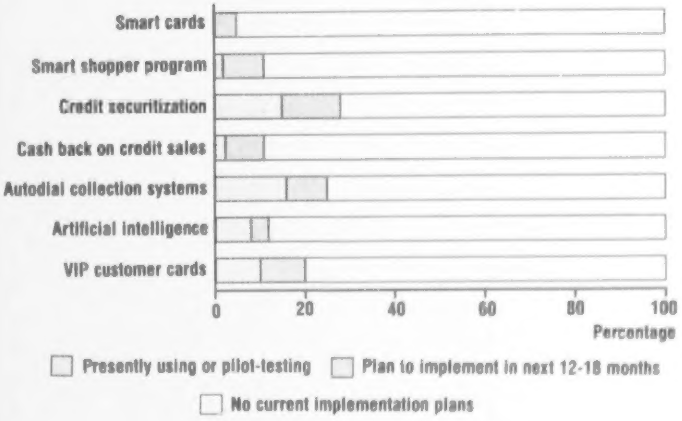
All other write-offs increased 4%, while recoveries declined by the same percentage. Obviously, the bankruptcy rates reflect the weak national economy as well as the impact of the change in the Federal Bankruptcy Law in 1979, which provided greater consumer protection and made bankruptcy protection easier to attain.

Overall, retailers with their own credit operations report total credit costs approximating 1.35% of total sales and 2.85% of credit sales. In our 1990 study, these costs were 1% of sales and 2.25% of credit sales. There were more respondents to this year's survey, but we believe the rising cost trend is accurate.

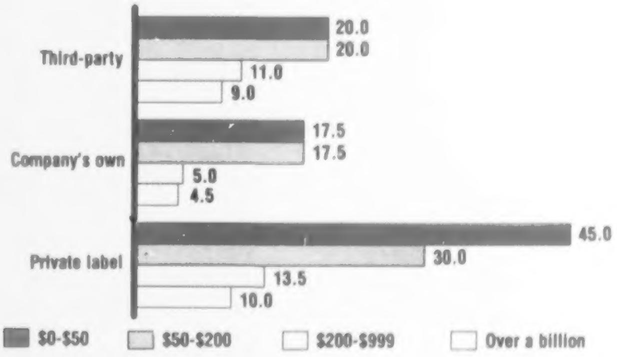
The components of credit costs

OVERALL FINDINGS

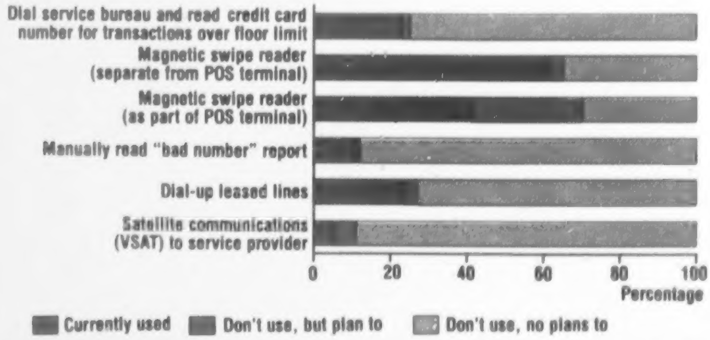
EMERGING RETAIL ISSUES



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME IN SECONDS BY COMPANY REVENUE



CREDIT AUTHORIZATION TECHNIQUES USED



also parallel the results of our 1990 survey. For example, bad-debt expense is again nearly twice any other component of credit costs.

Using a private-label credit operation is reported to cost less than running an in-house operation. Respondents report costs approximate 1% of sales on average, and 1.8% of credit sales, which parallels last year's results of 0.8% and 1.9%, respectively.

With the squeeze on the investment dollar, it will be increasingly difficult for retailers to maintain state-of-the-art credit systems. In response, 5% of this year's survey respondents report that they intend to pursue private-label credit within the next 18 months. We believe the trend toward private-label processing will accelerate.

Third-party credit costs are reported to be 0.5% of sales and 1.95% of credit sales for all respondents in 1991. This is a slight decrease from last year's response of 0.6% and 2%, respectively.

The average discount rate reported by respondents this year is 1.83%. Last year, respondents reported an average discount rate of 1.9%. It appears that the well-chronicled "market-share" wars between the major cards and the processors might represent an advantage to the retailer.

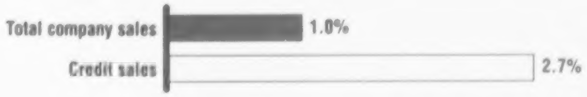
Even though the interchange rate increased last year, it appears retailers have been able to contain the overall cost of this form of credit by negotiating and working with the credit providers.

Once again, MasterCard and Visa are reported to offer the lowest discount rates, which averaged 1.78% for all respondents. As expected, American Express has the highest discount rates, an average of 3.25%. Fifty-six percent of the respondents report that their discount rates increased over 1990; for 22%, the rates have decreased.

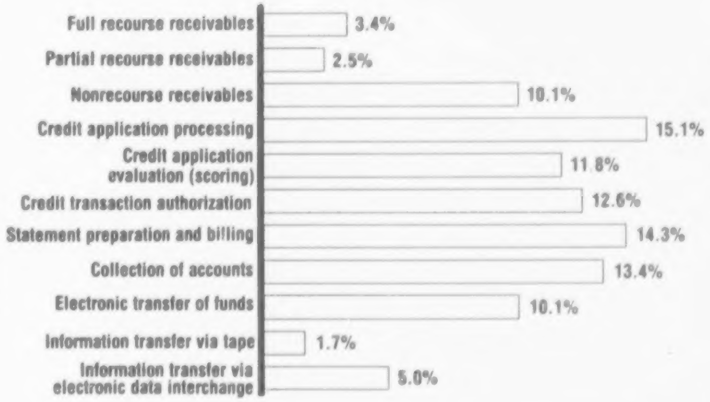
Approximately half of the respondents expect their discount rates to increase in the next 18 months, and less than 12% expect a decline. Once again, a substantial majority group (66%) indicates that they do not intend to pass any increase in cost to the customer in the form of price increases.

OVERALL FINDINGS

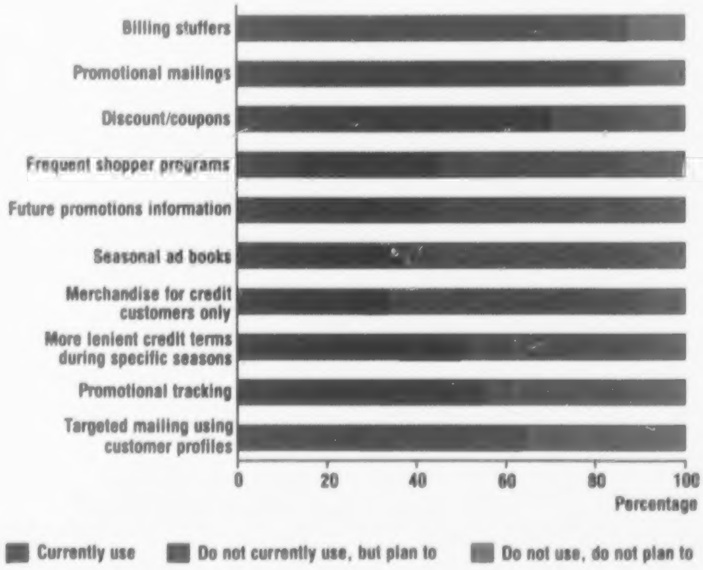
WHAT IS THE COST OF THE COMPANY'S PRIVATE LABEL CREDIT OPERATIONS? AS A PERCENTAGE OF:



SERVICES OR CHARACTERISTICS INCLUDED IN PRIVATE-LABEL PROGRAM



DOES THE COMPANY USE ANY OF THE FOLLOWING IN THEIR PRIVATE LABEL PROGRAM



Surprisingly, over two-thirds of the respondents are interested in learning more about the components of interchange rates. This appears to present an opportunity for MasterCard, Visa and American Express to educate their clients.

Chargebacks and fraud are growing at a startling rate. Of this year's respondents, 32% report that chargebacks have increased either moderately or substantially, while 50% report the level of chargebacks to be the same.

The retailers we talked with are frustrated with the apparent increase and the effort required in handling chargebacks related to fraud. However, fraudulent credit card use will inevitably continue to rise as the number of bankcards circulating in the United States presently is reported to exceed 217 million, an 8% increase since 1990. Industry forecasts suggest that credit card issuance will increase, albeit at a slower rate.

Marketing: The retail credit function is assuming more and more responsibility for protecting and expanding a company's customer base.

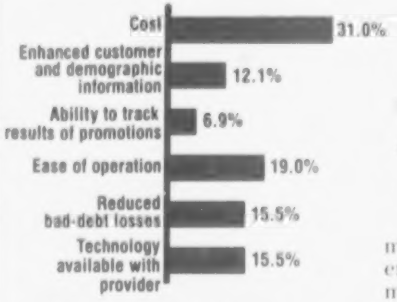
Retailers see the credit function as a vital part of their marketing strategy. One retailer in particular, who reports that credit sales are a whopping 80% of total sales, has totally integrated the marketing and credit functions. Credit promotions and merchandise promotions are communicated entirely by using the company's credit information, which drives this successful retailer.

This year's survey indicates that most companies are seeking new and better ways to communicate with their customers. Several respondents also report that they now use credit data to help measure consumer confidence and project sales levels. As affordable systems are developed to extract data, correlate trends and profile customer patterns, micro-marketing through the credit function will become commonplace.

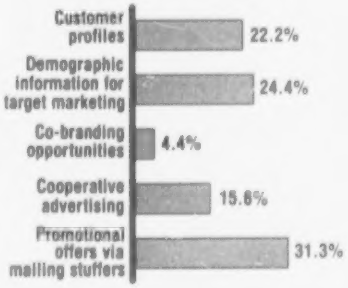
Surprisingly, less than half of the retailers with in-house credit operations report that their companies do not establish goals to in-

OVERALL FINDINGS

FACTORS INFLUENCING SELECTION OF PRIVATE LABEL PROGRAM



ANCILLARY MARKETING SERVICES PROVIDED BY PRIVATE LABEL SERVICE PROVIDER



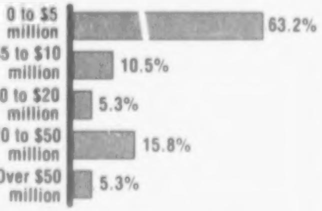
crease the number of active accounts. Setting expectations and inspecting results in the credit promotion area will help those who aren't presently goal-oriented to enhance their credit operations. In addition, less than half of the respondents offer credit incentives such as first-day discounts.

Interestingly, few retailers, including those offering private-label credit, sell their mailing lists, preferring instead to preserve these assets for their own use. Only 14% of the respondents, many of whom have catalog operations, sell their mailing lists.

About one-third of this year's respondents attempt to influence the consumer's choice of payment at the point of sale. Over half of these respondents report success.

Sixty percent of these retailers promote their own card, 30% promote cash or checks, and the re-

AVERAGE TOTAL OF OUTSTANDING RECEIVABLES BALANCE FOR COMPANY'S PRIVATE LABEL PROGRAM



mainder try to influence customers to use third-party cards with a more favorable discount rate at the register. While training front-end personnel has always been a challenge, it appears retailers still have an opportunity to increase productivity at the point of sale.

Most retailers do not require a minimum charge amount; only 14% do. "Cash is not king" in retailing since only 3% of the respondents reported offering a discount to cash customers (although 19% did provide "cash only" registers to enhance customer service).

Half of the retailers reported that they offer third-party credit applications in their stores, but only 15% actively promote third-party credit applications. Twenty-two percent of the respondents report that the third-party discount rate does impact their point-of-sale signage preference.

In 1990, respondents marked "customer service" as the primary reason for offering credit. In 1991, "generating incremental sales" leads the field of reasons for being in the credit business. Customer service ranks a close second.

Surprisingly, retailers say "targeted marketing" is the least important reason for accepting plastic. "Attracting better customers" and "reducing cash handling and shrinkage" are given equal value, well below customer service.

Once again, billing stuffers and promotional mailings are retailers' most popular means of enhancing their own credit card sales. Approximately 70% of the 1991 respondents use these techniques.

Similar to last year's results, over 31% of the retailers plan to institute frequent-shopper programs within the next 18 months. If these plans are carried out, half of the respondents will have frequent-shopper programs in two years.

Over 40% of retailers use the credit function and seasonal advertising books to announce future promotions. Another 10% expect to implement these campaigns in the next 18 months. About 18% offer more lenient credit terms during specific seasons, an increase from last year's response of approximately 12%.

Private-label retailers are more likely to use conventional marketing and are less interested in frequent-shopper programs than other respondents.

More than 85% of these respondents use billing stuffers and promotional mailings; over 70% offer discounts and coupons; and in excess of 30% utilize future promotion information, seasonal ad books and merchandise for credit customers only.

Almost 40% offer more lenient credit terms and utilize promotional tracking. Private-label retailers are somewhat more interested in using customer profiles for targeted mailings than in utilizing frequent-shopper programs.

More than one-third of these respondents state that they intend to implement targeted mailings over the next 18 months, while 30% intend to start frequent-shopper programs.

It also appears that retailers using private-label cards generally use or plan to use a greater variety of marketing techniques than the average retailer offering their own credit operation.

Most retailers are very pleased with third-party card providers' services. Notably, retailers rank demographic information for targeted marketing as the preferred service offered by third-party processors, with a slight edge over cooperative advertising. Customer profiles are also in demand; promotional offers using mailing stuffers are less important to retailers.

MasterCard and Visa receive the most positive ratings in terms

OVERALL FINDINGS

of speed of payment and credit authorization, with more than two-thirds of the respondents reporting that they are satisfied with these services. Approximately 50% rate American Express and Optima as satisfactory in these areas. Retailers are still less satisfied with chargeback processing than with the other services of third-party card providers.

Two-thirds of the respondents agree that the prominent display of third-party logos and names in key locations positively influences sales. The cash register is the display location of choice, with storefront windows and doors coming in a distant second.

The 170 respondents to this year's survey continue to demonstrate a keen interest in marketing to their customers through the credit function. The level of response to marketing questions exceeds all other areas, and many retailers indicate that they intend to accelerate their efforts to expand customer credit in the quest for incremental sales.

Credit Technology: Technology continues its inexorable invasion of the credit function. Forty-three percent of the survey participants report that their credit authorization information is stored centrally in an electronic format, and another 20% intend to implement this over the next 18 months.

Over 80% of the respondents perform credit authorization at the point of sale. Of those who do not, the majority plan to begin POS authorization in the next 18 months. Forty-two percent use magnetic swipe readers at POS terminals.

Over 60% use automated credit authorization techniques at the register, an increase from the 50% reported in last year's survey. Scanning is now performed by more than a third of the respondents; another 20% intend to scan within the next 18 months.

A small group of respondents (8%), mostly supermarkets, accepts debit cards, and an additional 8% plan to in the next 18 months. Similarly, ATMs are most often used by supermarkets. Other retail segments should be keenly interested in the success of the debit card in the supermarket segment, since supermarkets have initiated many of the technologies eventually adopted throughout the retailing industry.

Approximately one quarter of the participants still dial service bureaus, and 8% still read "bad number" reports. Very few respondents utilize satellite communications, although 5% intend to do so in the future.

Customer service drives technology decisions at the register again this year. Retailers rank customer service as the number one reason for implementing credit authorization technology.

Reducing bankcard processing costs is ranked second and cost reduction third. Retailers generally do not regard the elimination of bad credit as a primary reason for implementing automated credit processing technology, nor do they hold POS register productivity or improving cash float to be as important as customer service.

Average credit processing times are highest for private-label cards (30 seconds) and lowest for companies with their own cards (9.5 seconds). At 20 seconds, third-party cards fall in the middle range. Processing time at the register appears to be generally acceptable to retailers and customers.

Retailers most frequently ask for a second credit card when credit authorization is denied at the register. One half of the respondents accept a check with identification, and nearly 40% report that they accept cash only. More than half report making a second attempt to obtain authorization before seeking alternatives.

Private-Label Services: This year's survey directed some additional questions to retailers using private-label credit services. As mentioned earlier, we believe that the use of private-label services will increase as technologies that require a sizable investment will direct retailers to alternative courses of action.

According to this year's survey, retailers who opted for a private-label program did so mainly to lower costs (including bad-debt expense) and to reduce the complexity of their operations.

The ability of the private-label program to provide state-of-the-art technologies is also highly ranked. Enhanced customer and demographic information as well as the ability to track the results of promotions do not appear to influence many respondents.

On the other hand, for those now using private-label credit programs, customer profiles and demographic information for targeted marketing are the services most sought from their providers.

Retailers operating private-label credit programs are more likely to establish goals to increase credit card accounts. Sixty-two percent of these respondents set targets, and another 9% expect to in the near future.

Eighty-five percent of these retailers also accept third-party cards; nearly half report that they train their employees to influence customers towards the private-label card.

More than half of the private-label providers offer customer profiles, demographic information for targeted marketing and promotional opportunities.

Thirty percent of the respondents indicate that their private-label providers offer cooperative advertising. Over 14 different private-label processors are used, with General Electric Credit Corporation being mentioned most often.

All of the retailers choosing private-label cards report utilizing credit application processing, statement preparation and billing functions provided by their servicers. The majority also utilize collection, transaction authorization and credit application scoring.

Two thirds of these respondents assume no risk of bad debts as they have "nonrecourse receivables," while half of the remaining respondents have partial recourse receivables and the other half assume full risk and recourse.

For those retailers assuming bad-debt risk, bankruptcy write-offs have skyrocketed, all other write-offs have declined and recoveries have decreased between 1990 and 1991.

DEPARTMENT STORES

Department store retailers have set the pace historically in retail credit trends. They were also the first to feel the impact of the economic recession. They are significant contributors to the survey results. The department store retailers responding to the Arthur Andersen/*Chain Store Age Executive* survey are evenly distributed among small, medium and large department stores. Department store retailers with operations throughout the United States are represented in the responses, with the Northeast, Southeast and Midwest showing the strongest participation. Generally, the surveys were completed under the supervision of a senior officer of the responding company.

About one fifth of the participating companies have sales of less than $50 million, 15% report sales of $50 million to $200 million and the remainder (65%) report sales in excess of $200 million.

Virtually all of the responding department stores offer their own credit cards, and more than 95% of these retailers accept third-party credit cards as well.

MasterCard, Visa and American Express are accepted at all of those retailers who accept third-party credit. Discover is advancing and is accepted at over 50% of these retailers, an increase over the prior year.

Sales Trends: Department stores are far more positive than the total population of survey participants in projecting future sale gains. These retailers obviously believe that the bad news is behind us. Approximately 78% of department store participants project comparable store sales increases for the year; none of these respondents expects a decrease.

Only 5% predict that credit sales as a percentage of total sales will decline. Nearly 45% of these respondents expect credit sales as a percentage of total store sales to rise, and 50% expect the percentage to stay constant. These retailers have been hurt by the economy, and their optimism may be a reflection of the hope that things can't get any worse.

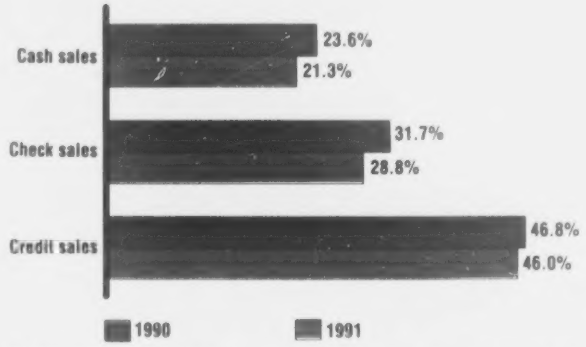
Average cash transaction values at these department stores decreased by 2% to $20 between 1990 and 1991, and average credit transaction values decreased by 4%, to an average of $45. Average personal check transaction values increased 7% in 1991, to an average of $36.50. As a percentage of total transactions, credit transactions represent 46%, check transactions 29% and cash transactions 21%. Check transactions decreased 3% and cash transactions fell 2%, while credit transactions decreased 1%.

Credit is significantly more important to department store retailers than to other retailers. On average, department store respondents report that their own credit card sales account for almost half (46%) of total sales, a slight increase from the prior year for these respondents. Three quarters of the participating department store retailers report credit sales of between 40% and 54% of total sales.

Department store participants also report that third-party credit card sales increased from 1990 to 1991, indicating that consumers are charging in lieu of paying cash or writing checks.

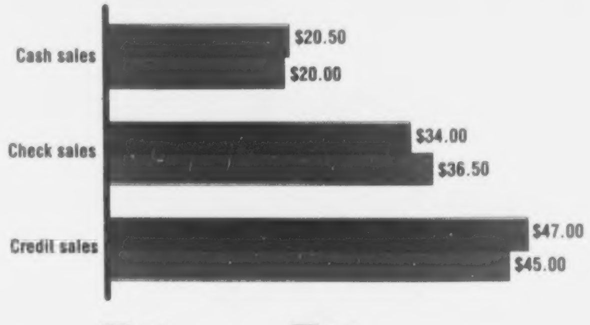
More than two-thirds of the department store respondents report that they take the time to estimate the incremental sales resulting from their credit card operations. More than 40% report their credit

PERCENTAGE OF TOTAL TRANSACTIONS



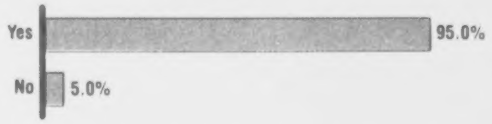
*Results represent the median of the responses, therefore total responses may not equal 100%

AVERAGE SALES TRANSACTION AMOUNTS

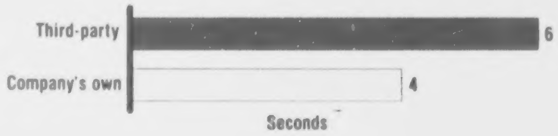


DEPARTMENT STORES

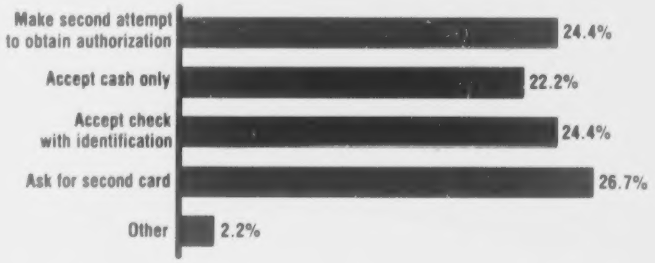
IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



to result in 20% incremental sales, while all report that credit results in at least 6% or higher sales. These retailers are convinced that their sales would drop between 15% and 20% over six months if they terminated their own credit operations.

As is the case with most of our survey participants, the department store executives seem more optimistic about the impact of the economic recovery than many economists and business reporters. These executives believe that consumers will loosen controls on spending during the remainder of 1991.

Cost of Credit: Department stores offering their own credit cards report that the cost of their credit operations was approximately 2.6% of total sales and 5.1% of credit sales in 1991. Department stores are finding it expensive to process credit card transactions, reflecting their heavier reliance on in-house processing. In fact, these respondents indicate that data processing of credit transactions runs around 16% of total credit costs—as opposed to 10% for all survey respondents.

Bad-debt expense is reported to average 40% of total credit cost. Bankruptcy write-offs for these retailers have increased almost 50% on average, reflecting the bankruptcy boom in the United States. Other write-offs on their own credit cards also are reported to have increased sharply, and recoveries are down 5% on average.

But department stores do better than others in new accounts, account servicing, account collection, credit management, in-store credit and other expenses. As a percentage of total credit costs, each of these costs is 1% less than for other respondents.

Department stores report that third-party credit costs approximate 1.9% of credit sales and less than 0.5% percent of total sales. The average discount rate reported is 1.5%, and all other third-party costs are 0.4% of credit sales. Approximately 60% of these respondents report an increase in their discount rate, while 18% report a decline.

The majority of department store respondents (69%) have experienced an increase in credit card chargebacks from their third-party cards during the last 24 months, but 60% of these same retailers report that they are comfortable with their own internal procedures for monitoring chargebacks.

Three quarters of the department store retailers are experiencing third-party credit card fraud, and approximately 60% of them indicate that the processors are "ineffective" in dealing with fraudulent chargebacks.

Close to half of the department stores responding to the survey expect the discount rates for third-party credit cards to increase. However, only 10% of these respondents expect to pass discount rate increases on to their customers in the form of higher prices.

Marketing: Department store retailers are savvy marketers. They use a broader array of marketing techniques, principally because they generally have their own credit card operations and they have a history of communicating with their customers more frequently and directly than some other retailers do.

Nearly all of the department store respondents use billing stuffers, promotional mailings and coupons. More than one-half of these department stores promote special programs and utilize seasonal advertising books. Over 85% of department store participants establish goals to increase the number of credit card accounts, and 70% train their employees to influence customers toward their own

DEPARTMENT STORES

DOES THE COMPANY OFFER . . .	Yes	No
A discount to cash customers	0.00%	100.00%
"Cash only" registers	5.26	94.74
In-store third-party credit applications	84.21	15.79
Instant credit upon receipt of application	82.35	17.65
Incentives to new credit applicants	88.24	11.76

THIRD-PARTY CREDIT PROCESSING METHODS	Currently Using	Don't use, no plans to
Bank	70.59%	29.41%
Third-party processors	35.71	64.29
Service bureau	7.14	92.86

credit card at the point of sale.

Over 60% of the department store officials surveyed offer more lenient credit terms during holiday seasons, and another 7% indicate that they plan to do so in the future.

While 35% of the department store participants offer frequent-shopper programs now, another 15% (the highest rate of all retailers surveyed) plan to start frequent-shopper programs in the future.

Not unexpectedly, cooperative advertising is the most preferred service retailers receive from their third-party credit providers. However, customer profiles and demographic information for targeted mailings are also highly ranked and are becoming more important to department stores based on a comparison with last year's results.

Department store retailers are generally satisfied with the level of service provided by third-party processors. While they are not generous with their praise, they cite American Express for its marketing services, including the in-store signage it offers, and MasterCard and Visa for their speed of payment and credit authorization efficiencies. None of the processors receive rave reviews for their chargeback processing.

Credit Technology: Approximately 95% of department store retailers report that they presently authorize credit at the point of sale, the majority utilizing magnetic swipe readers on the POS terminal. Over 90% of the participating department store retailers cite improved customer service as the leading reason for implementing POS credit authorization. Reducing costs is the second most frequent reason reported; improving cash float, reducing clerical errors, increasing register productivity and eliminating bad credit situations are mentioned in order of their importance.

Department store retailers report significantly faster average credit authorization processing time than non-department store retailers, reflecting their sustained investment in technology over the years. These department store retailers report an average credit authorization processing time of six seconds for third-party credit transactions, and three quarters of the respondents report a range of five to 17 seconds.

And credit authorization processing for their own credit cards is even faster. Respondents report an average credit authorization processing time of four seconds; 75% of the respondents report times between two and five seconds.

Emerging Trends: Department store respondents show very little interest in debit cards, smart cards, additional automatic teller machines, self-checkout and artificial intelligence. On the other hand, they do continue to report a keen interest in scanning, automated authorization, EDI in the credit function and autodial collection systems.

More department stores use automated authorization than any other retail segment. In fact, about 80% of the participating department stores report they do so. In addition, approximately 42% of the department stores in 1991 are using autodial collection systems, an increase from the 18% of last year's survey.

Approximately 25% of the respondents now utilize EDI in the credit function, but no other department store retailers indicate that they intend to invest in EDI in the near future. One quarter of the participants indicate that they use VIP customer cards, and no respondents have plans to implement VIP customer card programs.

While only 12% of the department store respondents presently employ credit securitization financing, an additional 12% indicate that they plan to pursue credit securitization over the next 12 to 18 months.

Over 60% of the department stores use economic credit trends to predict sales. However, only 25% monitor consumer spending trends and customer shopping profiles through the credit function. And, none of the respondents report using the credit function to monitor consumer confidence.

Half of the department store respondents would like to see state-to-state standardization of the maximum allowable interest rate. Over 70% report that they are now subject to state legislation limiting personal identification procedures for credit cards and checks.

Department store retailers are clearly the most dependent on credit cards of any group surveyed, and they appear to maximize their credit efforts. When asked why they accept credit, the response was "to generate incremental sales." Credit is perceived as a customer service enhancement and a vital element in the success of department store operations.

SPECIALTY/APPAREL

Specialty apparel retailers are the second largest category of respondents to the Arthur Andersen/*Chain Store Age Executive* survey. More than half (57%) of these apparel retailers report revenues of less than $50 million, 17% report revenues between $50 million and $200 million and 26% of the participating companies report revenues in excess of $200 million. The majority of these specialty companies are privately held.

Over half of these retailers are headquartered in the Northeast; the remainder of the respondents are evenly distributed throughout the country. About a quarter of the responding specialty apparel retailers report that they offer their own credit cards, and all of these merchants offer third-party card services.

Sales Trends: The specialty retailers in the apparel segment are normally good barometers of the economic climate. They are keen observers of the foot traffic in what has been described as an "over-malled America," and several of these respondents operate throughout the country. They have been hit hard by the recession and are hopefully correct in their prediction of the return to better times. Specialty retailers are more optimistic than retailers as a whole in projecting future sales. Approximately 69% expect comparable store sales to increase, while 12% forecast decreasing comparable store sales and 19% expect their sales to remain the same.

A good portion of the respondents, 63%, expect credit sales to become a larger percentage of total sales, while 31% of these apparel retailers expect credit sales to remain the same and 16% expect a decline. Forty-one percent report that they have measured the impact on incremental sales of accepting credit, and nearly half of these estimate incremental sales exceeding 20%. All of the respondents suggest that sales would plummet within six months to a year if they stopped accepting credit cards.

The average cash transaction increased 1% to $45 in 1991, and credit transactions increased 9% to an average of $60 in 1991. Average personal-check transactions among the respondents decreased 9% over a 24-month period to $50.

Normally, specialty apparel retailers report a higher average credit sale transaction ($50) than other segments. While department store retailers report an average decrease, these specialty retailers experience a slight increase year to year.

Specialty stores reported a slight increase (to $45) in their average cash transaction this year, while department stores average of $20 was down from last year.

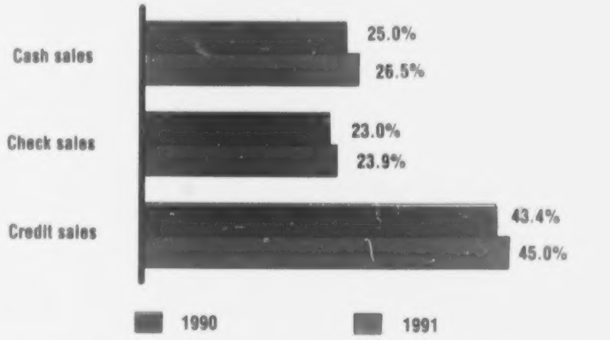
Approximately 25% of specialty apparel retailers report that they offer a company credit card, while 12% use a private-label card serviced by a financial underwriter.

Private-label credit card sales parallel the results of retailers offering their own credit. The average private-label credit transaction is approximately $55 and remains stable from the prior year.

For specialty companies that offer their own credit cards, credit sales are nearly the same as a percentage of total sales (35%) as for those companies that offer third-party credit (36%).

Third-party credit is universal at specialty apparel retailers. All respondents to the Arthur Andersen/*Chain Store Age Executive*

PERCENTAGE OF TOTAL TRANSACTIONS



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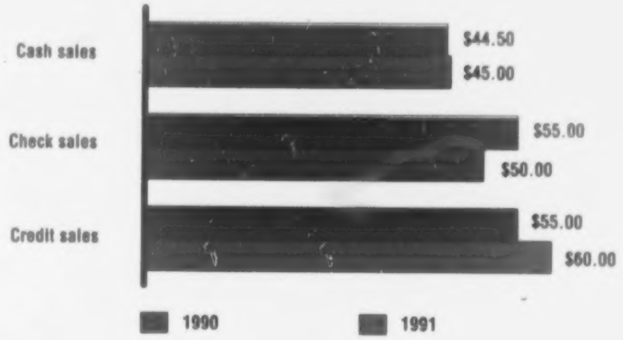
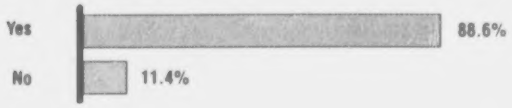
AVERAGE SALES TRANSACTION AMOUNTS

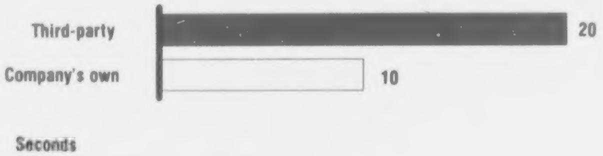


SPECIALTY/APPAREL

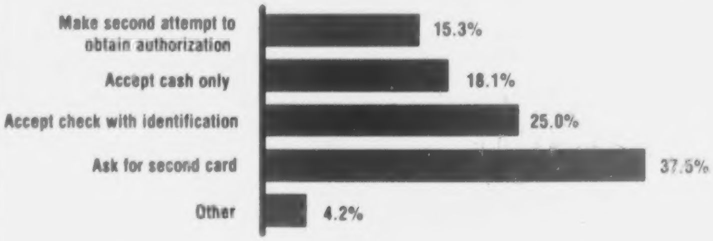
IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



survey offer both MasterCard and Visa, and 81% offer American Express. Over 70% of the respondents report accepting Optima, while 63% accept Discover.

Debit cards are accepted infrequently, and very few respondents indicate an intention to implement them. For those retailers who offer their own credit, credit promotion is important. Fifty-six percent report that they establish goals to increase the number of credit card accounts.

In addition, two-thirds offer instant credit, and one-third provide incentives to new credit applicants. A like amount train their employees to influence customers to use the company's card.

Half of our respondents say discount rates do influence their practices at the point of sale. These retailers state that customer service is the principal reason for accepting credit.

The second most important reason is the opportunity to generate incremental sales through target marketing. Specialty retailers deemed attracting better customers and reducing cash handling less important. Very few of these apparel retailers sell their mailing lists.

Cost of Credit: Among specialty apparel retailers offering company credit cards, the cost of credit operations approximates 1.8% of total company sales and 2.2% of credit sales. These costs are slightly lower as a percentage of sales than those costs experienced by department store operators.

Like the rest of their industry, apparel retailers report skyrocketing bankruptcy write-offs (a 66% increase) and, therefore, increasing costs in the credit function. Bad-debt expense as a percentage of total credit costs is reported to be 26%; account servicing and account collection are both reported to be 15%; data processing (13%); and management (10%); with the remainder spread among new accounts, in-store credit and "other."

It appears that credit continues to be recognized as a key ingredient in customer loyalty and incremental sales. Therefore, retailers will necessarily have to absorb these increasing costs or find alternative ways to extend credit. In fact, 40% of them also report that they accept more cards than they did last year.

For smaller retailers or for those who can't handle their credit function efficiently, either co-branding or private-label services seem to be a logical alternative.

Almost half (43%) of specialty apparel retailers report an increase in credit card chargebacks during the last two years. Most of specialty apparel retailers (63%) report that they monitor chargebacks by customer almost twice as

DOES THE COMPANY OFFER . . .

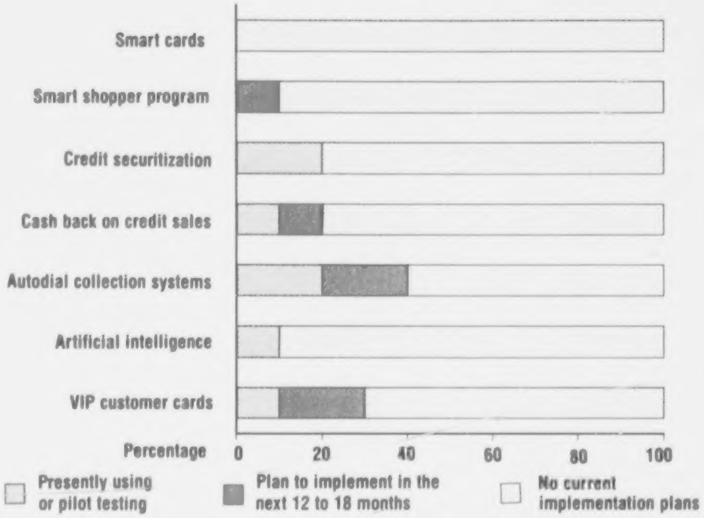
	Yes	No
A discount to cash customers	0.00%	100.00%
"Cash only" registers	2.94	97.06
In store third-party credit applications	38.24	61.76
Instant credit upon receipt of application	70.00	30.00
Incentives to new credit applicants	30.00	70.00

THIRD-PARTY CREDIT PROCESSING METHODS

	Currently Using	Don't use, but plan to	Don't use, no plans to
Bank	68.97%	0.00%	31.03%
Third-party processors	70.83	0.00	29.17
Service bureau	5.56	5.56	88.89

SPECIALTY/APPAREL

EMERGING RETAIL ISSUES



many as last year. At that time, only 33% of the respondents reported that they monitored chargebacks.

Additionally, 72% of specialty apparel retailers report experiencing third-party credit card fraud. Approximately 10% of specialty apparel retailers indicate that third-party credit processors are "very effective" in helping them identify excessive or fraudulent chargebacks, and 48% are described as "somewhat effective."

Third-party credit costs represent 0.73% of total sales and 2% of credit card sales. The average discount rate is reported to be 1.85%, which is slightly higher than the average rate charged by MasterCard, Visa and Discover. And it's growing—more than half (57%) of these participants report that their discount rate has increased.

Fewer than one-fifth (19%) of these retailers intend to pass through discount rate increases to their customers. Among this group, there is a keen interest in increasing their understanding of discount rates.

Marketing: Specialty apparel retailers use the traditional marketing techniques in the credit area. All of the respondents with their own credit or private-label cards use promotional mailings, and 90% use billing stuffers to enhance sales. More than one-third offer discounts or issue coupons, while more than half use seasonal ad books or announce future promotions using their credit systems. Very few presently offer frequent-shopper programs, but one-third of this group plan to use this technique in the next 18 months. Similarly, about 20% plan to implement a discount or coupon program, a program to announce future promotions and more lenient credit terms during specific seasons.

Specialty apparel retailers prefer customer-profile information, demographic information and cooperative advertising for target marketing over mailing stuffers from their third-party credit card service.

Credit Technology: Most (89%) of the respondents indicate that they currently perform credit authorization at the point of sale. These retailers installed credit authorization technology primarily to improve customer service and reduce expenses and bankcard processing costs.

The retailers also say that increasing register productivity and eliminating bad credit situations are important problems to solve through technological improvements.

This group rates the third-party processors as effective service organizations. They rate MasterCard and Visa the highest for their speed of payment and authorization systems. American Express receives high marks for signage and service, the cost of which is reflected in their higher discount rate.

Emerging Trends: Specialty apparel retailers express very little interest in debit cards, smart cards, automatic teller machines, credit securitization, self-checkout and other technologies.

Approximately 63% of the respondents are using automated authorization systems and 45% report they are scanning.

More than one-fifth (21%) indicate that they intend to implement scanning within the next 12 to 18 months, and 3% report that they intend to implement automated authorization in the near future.

CASE STUDY

OUTSOURCING WORKS AT CHARMING SHOPPES

During recent years, the practice of "outsourcing," utilizing the services of a third-party processor with extensive network and technological expertise for credit related services, has become a growing practice in the retail industry.

A company credit card program can grow the customer base by building customer loyalty, increasing store traffic and adding to customer service by making purchasing convenient.

In addition, a company credit card program provides the means to target individual retail customers with advertising and marketing efforts and to manage the data base (i.e., file segmentation and behavior related controls).

In today's highly competitive retail environment, offering a company credit card can add a competitive edge in marketing and increase incremental sales.

These distinct advantages have been clearly demonstrated in the established relationship between Charming Shoppes Inc., and their company credit card outsourcing partner, JCPenney Business Services Inc.

Charming Shoppes, an $886 million chain based in Bensalem, Pa., operates 1,013 women's specialty stores in 40 states and the District of Columbia. The stores, operating principally as Fashion Bug and Fashion Bug Plus, specialize in the sale of moderately priced, fashionable merchandise in junior, misses and women's sizes.

Utilizing the services of a third-party processor affords any retailer substantial labor savings, operational management expertise, and enhanced customer service while providing immediate access to state-of-the-art technological services without capital investment.

Reliable outsourcing providers offer tangible benefits in both improved and additional processing products and services, freeing the retailer to concentrate on traditional areas of business expertise.

"Our Fashion Bug credit program continues to play a key role in our business. We market to this important segment on a frequent basis, and have developed unique programs that make our charge card worth carrying," said Kirk Simme, Charming Shoppes vice president-credit.

"Last year, we repurchased and now control a portion of our credit file, and we also installed new state-of-the-art terminals that not only speed the customer's checkout, but ensure the correct data is entered at the point of sale."

Simme says his credit receivables growth was aided by the support of JCPenney Business Services in processing portions of the company credit card.

Services provided by JCPenney Business Services for Charming Shoppes to support the Fashion Bug card include access to the JCPBSI new account processing system, which utilizes direct computer linkage to top credit bureaus to screen potential cardholders, and the production and mailing of approval or denial letters.

Also provided are encoding and embossing of new cards, delivery to cardholders through personalized mail and electronic point-of-sale authorizations.

Additionally, services include statement billing/mailing, remittance processing, handling customer service inquiries and collections.

The collections system utilized by JCPenney Business Services is referred to as a parameter-based system. With this system, JCPBSI facilitates Charming Shoppes' strategy.

Additionally, the balance and the number of times delinquent during a designated period can be used to trigger a pre-recorded message from an automatic-calling unit.

Since JCPenney Business Services provides component-based fees for each service, Charming Shoppes can modify the collection strategy while understanding the associated financials.

This approach to the business allows Charming Shoppes to protect its valued customers while at the same time managing the financial aspects of a proprietary credit portfolio.

Simme ensures Charming Shoppes' operating philosophy by incorporating it in the outsourcing strategy—nearly 150 associates and facilities committed to customer service, authorizations and collections are dedicated exclusively to Charming Shoppes.

In addition, services for data processing, statement processing, remittance and accounts receivable reporting are provided to Charming Shoppes within shared facilities to maximize economies of scale and leverage high-speed, capital intensive technologies.

Charming Shoppes establishes all of its credit policies and procedures, customizing all standards specifically to meet company objectives, and then these are implemented by JCPBSI. Charming Shoppes also establishes the approval criteria for new accounts and sets collection policies.

JCPenney Business Services has offered Charming Shoppes unforeseen advantages such as the production of special reports to assist in receivable financing strategies and the availability of multiple credit processing sites which can be utilized for disaster recovery.

Recently, the outsourcing partnership experienced a total power outage in the Charming Shoppes credit operations facility in Voorhees, N.J.

However, since JCPenney Business Services has access to multiple sites and network strength, store authorizations continued uninterrupted. Customer support services, such as customer service inquiries, new account processing and collections, were restored the same business day.

The necessary site access was sustained for over a week while permanent recovery was made at the credit operations facility.

SPECIALTY/NON-APPAREL

The largest response to the Arthur Andersen/*Chain Store Age Executive* survey came from speciality retailers in the non-apparel segments. Included in this category are retailers of consumer electronics, appliances, sporting goods, furniture, hardware, building supplies, home furnishings, gifts and accessories.

More than 40 of these retailers from all U.S. regions responded to the survey—an increase of 30% over last year.

Approximately one-half of the responses came from retailers with revenues of $50 million or less, and the remainder divided evenly between retailers with $50 million to $200 million and $200 million to over $1 billion in sales. The majority of these retailers are privately held companies.

Approximately 22% of these respondents offer their own credit cards to their customers, 18% offer private-label cards and 96% accept third-party credit cards.

Sales Trends: These non-apparel specialty retailers were more realistic in their predictions for sales than last year. Only 58% of this year's respondents (versus 70% last year) predict an increase in comparable store sales, and 19% (12% in 1990) expect them to remain unchanged from the prior year. The percentage of respondents expecting a decline in comparable store sales has increased to 23%, from 18% last year.

More than half of these retailers expect credit sales to increase as a percentage of their total sales, while 46% project credit sales to remain the same and only 2% expect a decline.

These retailers have experienced a fall-off in average transaction sizes over the year. The average cash transaction declined 20% between years to $15, while the average credit transaction remained the same at $40. The average personal check transaction decreased 7% over the prior year to $45.

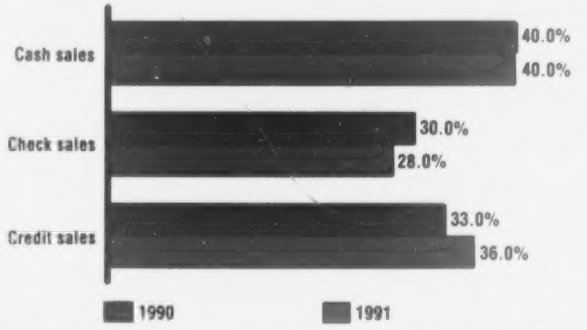
For those who offer their own credit card, credit sales have averaged 40% of sales for each of the last two years. For those with private-label cards, credit sales are 17% and have increased by two points from the prior year. Third-party credit sales averaged 25% of sales in both the 1991 and 1990 surveys, with half of the respondents reporting an increase in the number of cards accepted.

Only 20% of these retailers have attempted to quantify the incremental sales generated by their credit card business. However, 55% of these estimate incremental sales in the 5% to 15% range, while 45% state that they exceed 20%. Most of the respondents are convinced that if they stopped offering credit, their overall sales would plummet within six to 12 months.

Cost of Credit: Specialty retailers have also witnessed an explosion in their bankruptcy write-off rates. Bankruptcy write-offs have more than doubled since 1990, and this year's responses indicate that other write-offs have increased 50%.

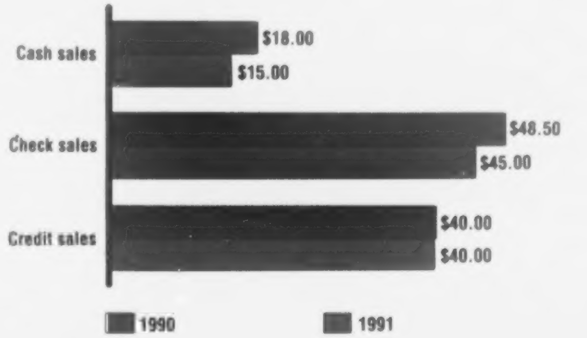
Credit operation costs for retailers with their own credit card average 1.5% of total sales and 2.9% of credit sales. Those retailers using private-label cards report that costs average 1% of total sales and 2% of credit sales. Third-party credit card costs average 0.7% of sales and 2% of credit sales with an average discount rate of 1.8%. About half of these retailers expect discount rates to increase moderately over the next 18 months, 42% expect rates to remain the same and the rest anticipate a decrease. Surprisingly, only 30% of these retailers who accept third-party

PERCENTAGE OF TOTAL TRANSACTIONS



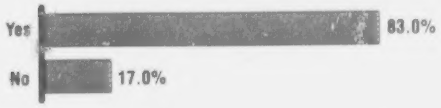
*Results represent the median of the responses, therefore total responses may not equal 100%.

AVERAGE SALES TRANSACTION AMOUNTS

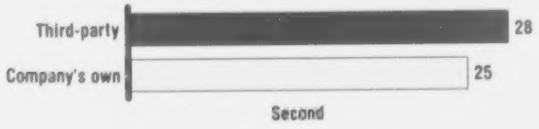


SPECIALTY/NON-APPAREL

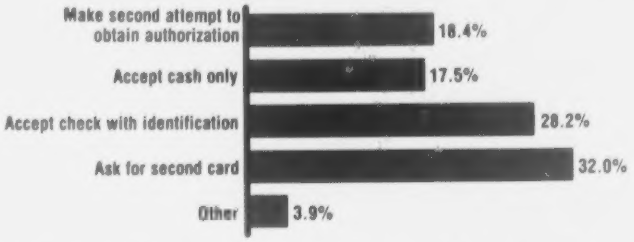
IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



cards and offer their own cards attempt to train their employees to influence their customers to use the store cards.

Bad-debt expense is reported to represent 13% of total credit costs with account collection 22%; data processing, 17%; account servicing, 17%; and the remainder spread among new accounts, management, in-store credit and "other." Bad-debt expense has become a significantly higher percentage of total expense for the 1991 survey participants.

One-fifth (21%) of these non-apparel retailers acknowledge an increase in credit card chargebacks, while 55% report no change and 24% report a decrease. A surprising 53% admit that they do not monitor chargebacks by customer, and 68% report that their company has experienced third-party credit card fraud, as compared to 47% in 1990.

About 12% of these retailers describe third-party processors as "very effective," 56% say "somewhat effective," and 32% claim the processors are "not effective at all" or are "somewhat ineffective" in assisting their company in identifying excessive or fraudulent third-party chargebacks.

Marketing: Non-apparel retailers with company credit cards extensively utilize billing stuffers, promotional mailings and discounts/coupons in their marketing. About 82% use billing stuffers, 91% use promotional mailings and 70% use discounts/coupons. Very few of these retailers offer "merchandise for credit customers only" or frequent-shopper programs. In this segment, specialty retailers rate customer profiles equally with demographic information for target marketing and cooperative advertising as services they would like to receive from their third-party credit providers.

Among these hardlined retailers, 25% of the participants report that they attempt to influence the consumer's choice of payment, and half of these report success. Almost half of these participants encourage the use of cash; the other half promote their own card. Third-party credit card applications generally are not actively promoted in stores, even though 20% of the companies report that they are compensated for credit card applications attributed to them. Almost one-half of this group make applications available in their stores. Very few of these retailers offer "cash only" registers, none offered discounts for cash but a few require a minimum

DOES THE COMPANY OFFER . . .

	Yes	No
A discount to cash customers	0.00%	100.00%
"Cash only" registers	19.15	80.85
In-store third-party credit applications	46.81	53.19
Instant credit upon receipt of application	41.67	58.33
Incentives to new credit applicants	18.18	81.82

THIRD-PARTY CREDIT PROCESSING METHODS

	Currently Using	Don't use, but plan to	Don't use, no plans to
Bank	65.71%	2.86%	31.43%
Third-party processors	67.65	2.94	29.41
Service bureau	7.14	0.00	92.86

SPECIALTY/NON-APPAREL

charge amount—usually $10.

Credit Technology: A vast majority (83%) of these retailers now perform credit authorizations at the point of sale, and 30% of the remaining respondents plan to do so.

These retailers have installed credit authorization technology primarily to enhance customer service. Almost half (47%) of these respondents expect to implement magnetic swipe readers as part of their POS configurations within the next 18 months.

Technology to reduce bankcard processing costs, improve the company's float position, reduce expenses and clerical errors are reported in the above order of importance.

Average credit authorization time at the register is 28 seconds for third-party cards and 25 seconds for the company cards, with three quarters of the respondents falling within a range of 14 seconds to 90 seconds.

If credit authorization is initially denied, most of these retailers ask for a second credit card and then ask for a check with appropriate identification.

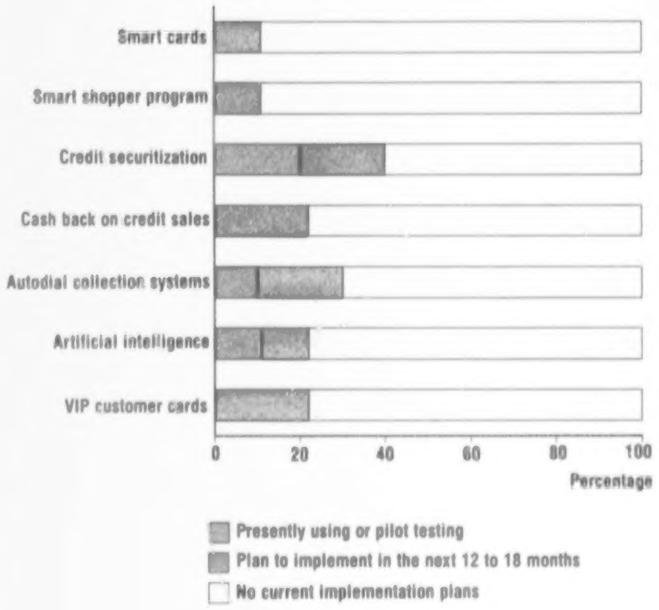
Emerging Trends: Specialty retailers in this group express very little interest in debit cards, smart cards, automatic teller machines, self-checkout and other technologies. More than half (65%) use or intend to use automated authorization systems, and 18% scan. Scanning continues to be popular, with 34% indicating that they intend to implement scanning within the next 12 to 18 months.

Half of the respondents report that they expect discount rates for third-party credit cards to increase, while 8% expect a decrease and 42% expect rates to remain the same. Most (79%) say they would not pass such an increase on to the customers, while 21% don't know whether they will pass on these costs.

It appears that these specialty retailers were hit hard by the reluctant shopper last Christmas and are optimistic that the worst is over.

It will be interesting to see if in the future, more of these retailers seek incremental sales through the enhanced credit services of the third-party providers, private-label services or their own credit operations.

EMERGING RETAIL ISSUES



DISCOUNT STORES

Value-conscious consumers and price-sensitive shoppers abound in periods of recession. Thus, discounters become the popular retailers in difficult economies.

Fourteen companies responding to the Arthur Andersen/*Chain Store Age Executive* retail credit survey identified themselves as discount stores, including discount department store operators, wholesale clubs and discount apparel retailers.

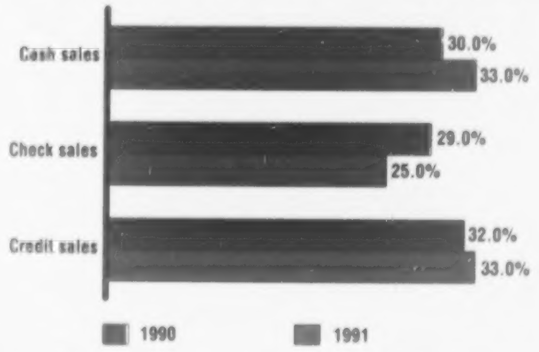
Approximately one-third (31%) of these firms report sales of $200 million to $999 million; 15% have sales of $50 million to $200 million; and 54% report sales of less than $50 million.

Many of these retailers are headquartered in the Northeast, but the lion's share of the discounters operate throughout the Northeast, Midwest and Southeast, if not nationally. Public companies account for 36% of the discount store respondents.

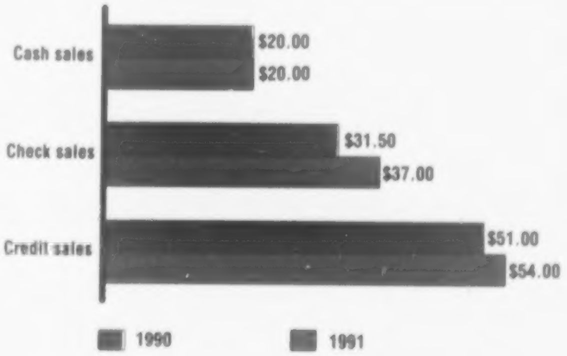
These discount and value-oriented retailers rely on third-party cards to generate their credit sales. Only 9% offer their own credit cards, another 8% offer private-label cards, but all of them accept MasterCard and Visa. At least 50% accept Discover, American Express, Optima and other cards. One-quarter of these participants have quantified the impact of their credit sales and report that credit generates incremental sales of 6% to 10%.

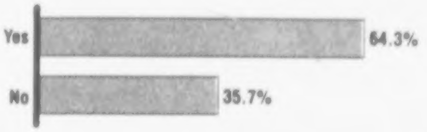
These participants are unanimous in reporting that sales would decline as much as 20% over 12 months, if they stopped accepting credit cards. Although the principal rationale for accepting credit is reported to be incremental sales, very few of these operators believe they can afford their own card or a private-label service.

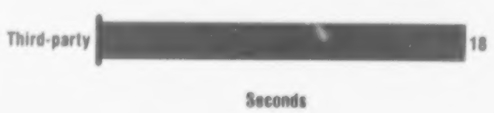
Sales Trends: Discounters are bullish on the outlook for the economy. Since shoppers are looking for deals, discounters perceive themselves to be in an advantageous position. Many discount store operators predict strong growth in value-oriented retailing: 72% expect comparable store


PERCENTAGE OF TOTAL TRANSACTIONS

*Results represent the median of the responses, therefore total responses may not equal 100%

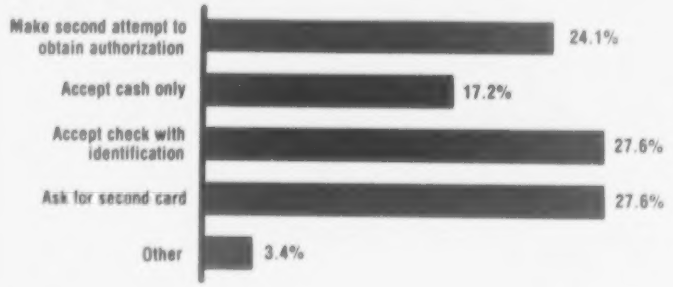

AVERAGE SALES TRANSACTION AMOUNTS


IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?


AVERAGE CREDIT AUTHORIZATION PROCESSING TIME

DISCOUNT STORES

PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



DOES THE COMPANY OFFER . . .	Yes	No
A discount to cash customers	0.00%	100.00%
"Cash only" registers	42.86	57.14
In-store third-party credit applications	50.00	50.00
Instant credit upon receipt of application	0.00	100.00
Incentives to new credit applicants	33.33	66.67

sales to increase, 21% expect sales to remain the same and only 7% expect a decrease. And 69% predict that credit sales as a percentage of total sales will increase. None expect a decline.

The average cash transaction between years remained the same at $20, while the average credit transaction increased 6% to $54. The average check transaction increased by 18% to $37.

Credit sales are 30% of total sales for discount stores, up four percentage points over 1990.

Cost of Credit: Discounters accept more credit cards than last year, reflecting the four percentage point increase in credit sales and the increasing penetration of the Discover Card. Sixty-two percent of this group report an increase in discount rates; a similar percentage anticipate that discount rates will increase moderately in the next 18 months. A small minority expect to pass this increase on to their customers. Although the cost of credit has increased for this group, credit sales are now significantly more important to their total sales.

About 31% of these companies say credit card chargebacks are increasing, while 23% report decreases and 46% report no change. More than half (62%) of the discounters report they monitor third-party credit card chargebacks by customer, and 23% have experienced third-party credit fraud.

About 15% of these discounters describe third-party card processors as "very effective," 46% as "somewhat effective" and 39% as "not effective at all" or "ineffective" in helping them identify excessive or fraudulent third-party chargebacks.

Third-party credit card costs are 0.5% of total sales for discount stores, and about 1.6% of credit sales. The average discount rate is 1.9%, ranging from 1.6% to 3%. Three-quarters of the discounters report the discount rate to be within a range of 1.2% to 3.6%. The Discover Card, MasterCard and Visa have an average discount rate of 1.6%.

Marketing: Cash is still respected by discount retailers. Forty percent report designated "cash only" registers, and one respondent offers discounts to cash customers. While more than 50% offer third-party credit applications in their stores, only 30% promote them. There is a direct correlation between being compensated and promoting third-party applications. Only 15% of the discounters have a minimum amount charge policy. Discounters are convinced that their customers are very interest-rate sensitive and that this is the overriding influence on their customers' credit card decision. More than two-thirds of these retailers believe interest rates should be standardized among the various states.

Discount stores put more stock in the power of co-op advertising than their cousins in department stores and specialty retailing. Co-op advertising is the service they would most like to receive from third-party credit providers, followed by demographic information for target marketing, customer profiles and mailing stuffers.

Credit Technology: Only 64% of the discount stores perform credit authorization at the point of sale. They cite reducing expenses, bankcard processing costs and improving customer service as the primary reasons for installing credit authorization technology. Increasing register productivity, eliminating bad credit, increasing cash float, decreasing clerical errors and gaining a competitive edge are also reported in this order of importance.

The average credit authorization time at the register is 18 seconds for third-party credit cards, with 75% of the respondents falling within a range of 10 to 45 seconds.

Emerging Trends: Discount store operators report little interest in debit cards, EDI in credit or self-checkout.

One-quarter use scanning devices, and another 58% intend to implement scanning within 12 to 18 months. A vast majority (75%) use automated authorization, and the remainder do not plan to implement this technology.

MASS MERCHANTS

Eight retailers responding to the Arthur Andersen/*Chain Store Age Executive* survey of retail credit trends classified themselves as mass merchants. One of these companies reports revenues in excess of $1 billion, two report revenues in the $200 million to $999 million range and the rest report revenues under $200 million.

Half of the general merchandise retailers are headquartered in the Northeast. The other half represent the Midwest and Northwest. Three of these mass merchants are public companies.

Only one of these retailers offers its own credit card to customers, and two of them utilize private-label card services. This segment of retailers is clearly dependent on third-party credit. All of these participants accept Visa and MasterCard, 63% accept Discover and one takes American Express.

Sales Trends: In last year's survey, we noted that this group was quite "bullish" in spite of the gloomy economic outlook. Apparently, economic reality has dampened their optimism. As we go to press, only 20% of the responding general merchandise/mass merchants expect comparable store sales to increase, another 20% expect them to remain the same and 60% expect comparable store sales to decline.

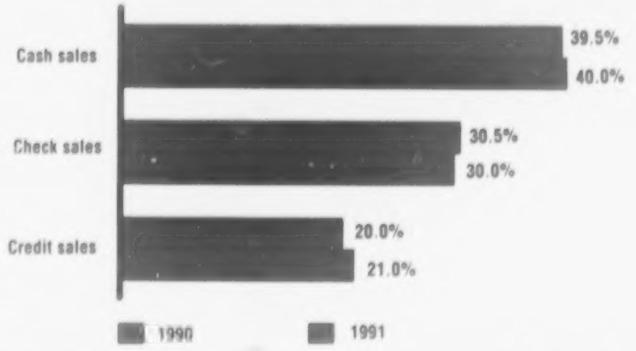
Mass merchandisers are equally pessimistic about plastic: only 20% of these companies project credit sales as a percentage of total sales to increase, and the remainder expect no change.

The average cash transaction between 1990 and 1991 increased 28% to $55, and the average check transaction rose 9% to $62. Credit transactions remained unchanged at an average of $70.

Third-party credit averaged 21% of sales for general merchandise/mass merchants. Credit increased slightly as a percentage of total transactions from 20% to 21%, offset by a reduction in sales by check.

Cost of Credit: The cost of third-party credit among the general merchandise/mass merchants av-

PERCENTAGE OF TOTAL TRANSACTIONS



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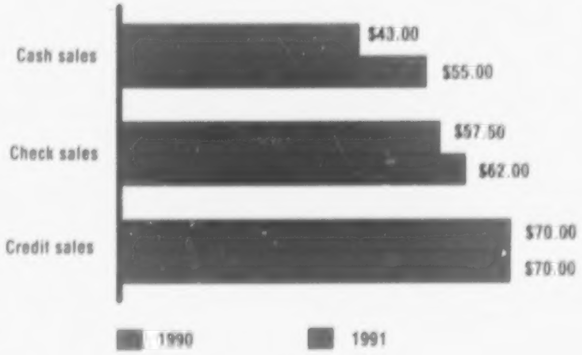
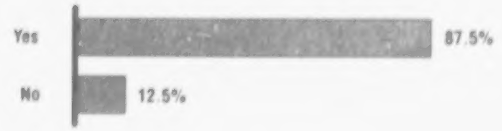
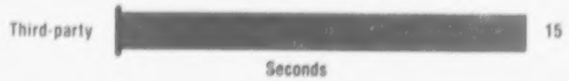
AVERAGE SALES TRANSACTION AMOUNTS



IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?

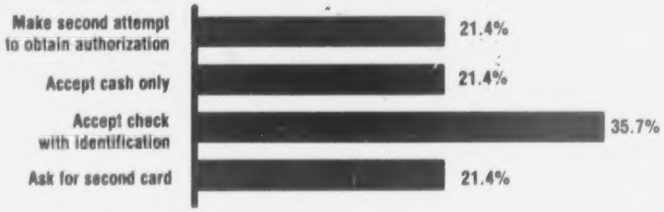


AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



MASS MERCHANTS

PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



DOES THE COMPANY OFFER . . .		
	Yes	No
A discount to cash customers	0.00%	100.00%
"Cash only" registers	42.86	57.14
In-store third-party credit applications	42.86	57.14
Instant credit upon receipt of application	50.00	50.00
Incentives to new credit applicants	0.00	100.00

THIRD-PARTY CREDIT PROCESSING METHODS		
	Currently Using	Don't use, no plans to
Bank	60.00%	40.00%
Third-party processors	50.00	50.00
Service bureau	20.00	80.00

erages 0.5% of total sales and 1.7% of credit sales, down slightly from 1.9% reported last year. The number of responses to questions relating to categories of credit costs was insufficient to report meaningful findings.

Nearly 35% of this group report credit card chargebacks are increasing, while only 17% report decreases. Fifty percent are unaware of any trend. Very few of these companies report that they monitor credit card chargebacks by customers, yet one-half experience third-party credit card fraud.

Almost 70% of these companies say third-party credit card processors are "very effective" or "somewhat effective" in identifying fraudulent third-party chargebacks.

Visa and MasterCard discount rates equal the industry average of 1.7%, while Discover discounts average 1.4%. One-third say their discount rate has increased, while one-half report a decline. The majority (67%) expect discount rates to increase moderately over the next 18 months. Less than 20% of these participants will pass that cost increase to customers, expecting that increased sales and gross profit will absorb the additional costs.

While 83% of these cost-conscious retailers say rates charged by credit card providers influence their tactics at the point of sale, more than two-thirds haven't attempted to quantify the incremental sales impact. All retailers report that sales would spiral downward at a rate of 5% to 15% within a year without credit cards.

The majority (71%) would like to see the maximum interest rate standardized from state to state. More than two-thirds of these retailers are accepting more credit cards.

Marketing: These merchants, like their brethren, are trying to increase sales through credit. Third-party credit averages 21% of sales. The overwhelming reason they give for offering credit is to increase sales; customer service is a distant second. However, none of these retailers use their credit information to predict sales.

This is the only group to say credit card signage is the leading influencer of credit card. Very few of these respondents are compensated for displaying signs or offering applications in their stores. Forty percent report they offer "cash only" registers, and 30% require a minimum charge of between $10 to $15.

Demographic information for target marketing, customer profiles and cooperative advertising top mailing stuffers as services these retailers want from third-party credit providers.

Credit Technology: While 88% of the responding general merchandise/mass merchants already authorize credit at the point of sale, the rest say they do not plan to follow suit.

Customer service and increasing productivity at registers are the primary reasons for implementing credit technology, followed by (in order of preference) efforts to reduce bankcard processing costs, decrease payroll expenses, eliminate bad credit and gain a competitive edge.

Third-party credit card authorization averages 15 seconds, ranging from eight seconds to 26 seconds.

Emerging Trends: General merchandise/mass merchants report little or no interest in debit cards, self-checkout and EDI in the credit function, but there is interest in exploring debit cards and/or EDI in the next 12 to 18 months. Two-thirds use scanning and automated authorization, and 17% intend to implement both in the near future.

HOME CENTERS

This year's survey results reflect the impact the economic downturn has had on the home center segment.

Fourteen home center operators participated in this year's Arthur Andersen/*Chain Store Age Executive* Survey of Retail Credit Trends. The participating companies are headquartered in the West, the Southeast, the Midwest and the Northeast. The majority of these companies are privately held; three are publicly held.

One participant reports sales in excess of $1 billion, five companies report sales in the $200 million to $999 million range, three report sales between $50 million to $200 million and five respondents report sales under $50 million.

Half of the home center participants use private-label credit cards, while 86% offer either their own or private-label cards. All of the responding home centers accept third-party credit cards, including MasterCard (100%), Visa (100%) and Discover (85%).

Sales Trends: Reality hit home center merchants this year. Only 30% of the respondents expect comparable store sales to increase in 1991 versus 56% last year; 54% expect flat sales compared to 44% in 1990; and 16% expect a decline—something no one predicted in 1990. Over half of this year's home center participants expect credit sales to play a more important role in their future business.

The average cash transaction between 1990 and 1991 increased 20% to $30, while the average credit transaction rose 5% to $63. The average personal check transaction increased 2% to $46.

At present, credit sales represent one-third of total home center sales, up from less than 20% last year. For those with their own credit, credit sales average 23% of total sales, a slight decrease from the prior year. For those with private-label service, credit sales are 10% of total sales, three percentage points higher than 1990. Third-party credit card sales also increased three percentage points on average, from 21% to 24% over the year.

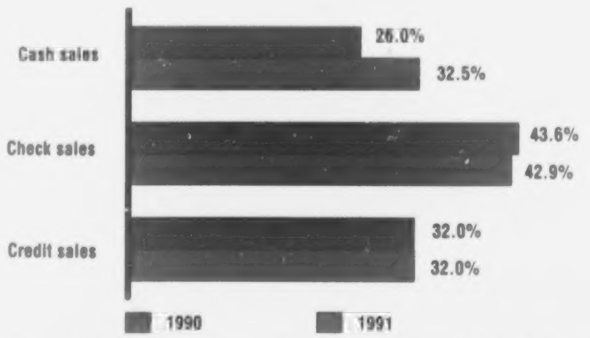
Generating incremental sales is the most frequently mentioned rationale for offering credit, with customer service a distant second choice. More than one quarter of the home center operators say accepting credit cards adds incremental sales of 5% to 15%. They are also convinced that sales would plummet about 20% within six months if they eliminated credit cards in their stores.

The results of this year's study suggest that credit has become a more important ingredient to the sales success of home centers.

Cost of Credit: For home centers, the cost of credit operations as a percentage of total sales averages 0.5%, down from 0.8% in 1990. For retailers offering their own credit card, credit costs average 0.4% of total sales, up from 0.3% last year. For those companies using private-label services, total costs approximate 0.3% of sales and 0.9% of credit sales which parallels those operators using their own cards.

Bad-debt expense represents 15% of total credit costs, account collection 10%, account servicing 15%, credit management 10%, with other categories of costs sharing an equal percentage. Bad-debt expense has almost doubled from last year as a result of the declining economy. Bankruptcy write-offs have increased in excess of 60% over last year, reflecting the skyrocketing incidence of personal bankruptcy.

PERCENTAGE OF TOTAL TRANSACTIONS



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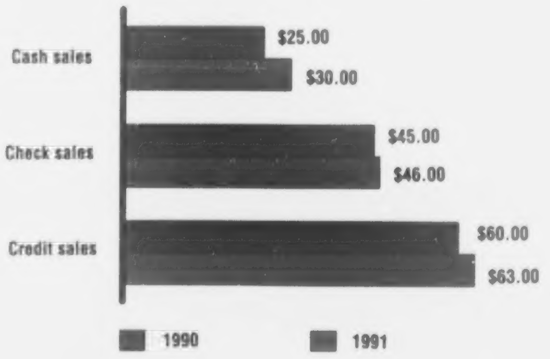
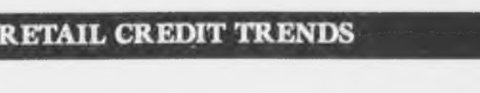
AVERAGE SALES TRANSACTION AMOUNTS

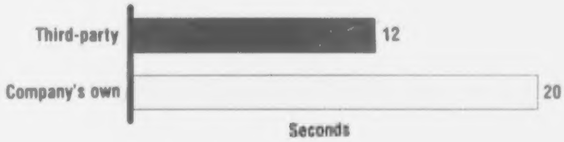


HOME CENTERS

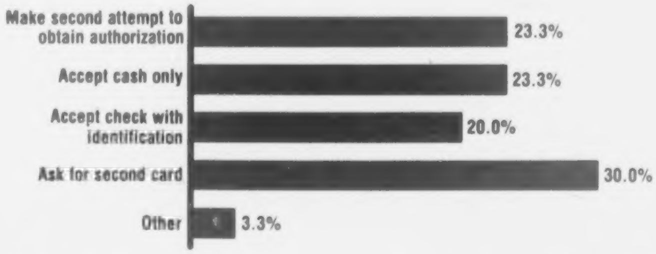
IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



Less than one-fourth of the surveyed home center retailers report increases in credit card chargebacks, down from one-third in 1990. The majority of home centers (62%) report that chargebacks have stabilized, while the remaining respondents report decreases.

These results show an improvement over the chargeback figures of 1990. This may be the result of closer monitoring of customer chargebacks. In 1990, only one-third of those surveyed actively monitored chargebacks; half report they monitor chargebacks in 1991. Fraud has, however, remained consistent—approximately 55% of home center retailers report experiencing third-party credit fraud in both years.

While 20% of home center retailers describe third-party credit card processors as "very effective," 50% say they are "somewhat effective" and 30% say they are "not effective at all" in helping their companies identify excessive or fraudulent third-party chargebacks. These results represent a slight shift in effectiveness over last year's responses.

Third-party credit card costs constitute 0.4% of total company sales for the participating home centers and 1.5% of their credit sales. The average discount rate is reported to be 1.7%, ranging from 1.5% to 3%. Three-quarters of the participants report discount rates between 1.6% and 1.8%.

Half of these participants report an increase in their discount rate, 14% report a decline and the rest have experienced no change. Over half the participants anticipate a moderate increase over the next 18 months and none predict a decline. Sixty-four percent of the home center operators will not pass an increase to customers. About 29% aren't certain about passing increases, and one retailer fully intends to pass through these costs.

Marketing: Marketing has become a more important tool for the home center retailer in 1991. This year's results show substantial increases in the use of various marketing techniques.

More than 85% of the home center retailers with their own credit operations report using billing stuffers; 71% use promotional mailings and coupons. Approximately 20% report using "merchandise for credit customers only." Over 40% of the participants offer more lenient credit terms during certain seasons.

Last year no home centers reported offering more lenient credit terms and only 40% used coupons. More than half the respondents plan to implement frequent-shopper programs and targeted mailings using customer profiles.

Even though credit sales appear to be more critical to home centers than to some other retail businesses, none of the surveyed home center operators establish goals to increase the number of accounts—nor do they plan to. Credit promotion appears to be an opportunity for this retail segment. Additionally, very few try to influence the customer to use the in-house card at the point of sale.

Home centers using private-label providers avail themselves of a full range of services, including promotional mailers, customer profiles and demographic information for targeted marketing. However, these retailers appear to use fewer of these techniques than those who have their own credit cards. Home centers using private-label cards report that cost benefit is the principal factor influencing them to adopt this type of card.

These retailers are pleased with the services of their third-party card providers. Services they prefer (in descending order) are: mailing stuffers, demographic information for targeted marketing, customer profiles and cooperative advertising.

Credit Technology: More than 90% of the responding home centers perform credit authorization at the point of sale. Those who do

HOME CENTERS

not report they plan to soon.

Home centers report that they have implemented credit technology to improve customer service. Other reasons, in order of importance, are to increase register productivity, reduce bankcard processing costs and to gain a competitive advantage.

Credit authorization processing times at the register average 12 seconds, down from 21.5 seconds in 1990, for third-party cards and 20 seconds for company cards.

Emerging Trends: Home center operators are not interested in credit securitization, self-checkout and artificial intelligence. Only 42% of these companies have installed automated credit authorization systems although an additional 22% indicate they plan to. Over 42% have installed scanning, and another 22% plan to install it within 12 to 18 months.

At least one participant intends to implement smart shopper programs, smart cards, EDI in the credit function, autodial collection systems and VIP customer cards. None of the home center retailers indicate they have or plan to install automated teller machines.

THIRD-PARTY CREDIT PROCESSING METHODS

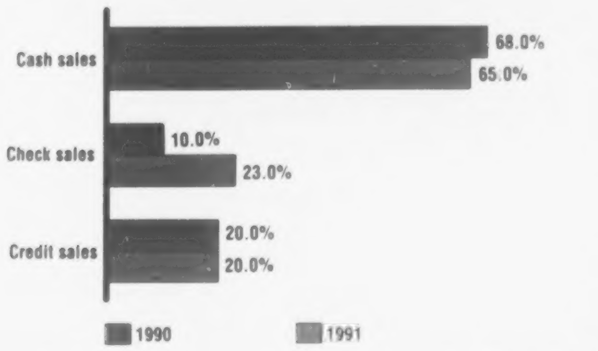
	Currently Using	Don't use, but plan to	Don't use, no plans to
Bank	84.62%	0.00%	15.38%
Third-party processors	33.33	11.11	55.56
Service bureau	12.50	0.00	87.50

DOES THE COMPANY OFFER . . .

	Yes	No
A discount to cash customers	14.29%	85.71%
"Cash only" registers	28.57	71.43
In-store third-party credit applications	57.14	42.86
Instant credit upon receipt of application	28.57	71.43
Incentives to new credit applicants	42.86	57.14

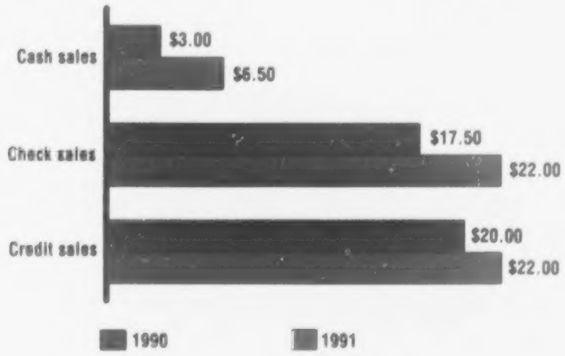
CONVENIENCE STORES

PERCENTAGE OF TOTAL TRANSACTIONS

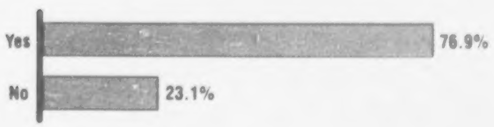


*Results represent the median of the responses, therefore total responses may not equal 100%

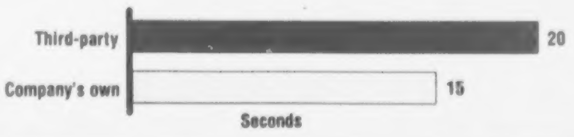
AVERAGE SALES TRANSACTION AMOUNTS



IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



Convenience stores responding to the Arthur Andersen/*Chain Store Age Executive* Survey of Retail Credit Trends range from those with annual revenues of less than $50 million to over $1 billion. More than two-thirds (77%) of the respondents report annual revenues of less than $200 million.

This category includes food marts, drug stores and general market stores, as well as large convenience store chains. The majority of the respondents are from the southern region of the United States and are privately held companies.

Approximately 55% of the respondents offer their own credit, up from 40% last year. None of these participants use private-label services, although more than 90% accept third-party cards.

Sales Trends: Despite long-term struggles and significant financial problems, the convenience stores responding to this year's survey are more optimistic than in the past about trends in credit sales and comparable store sales.

Almost half (46%) of the respondents predict their percentage of credit sales to total sales will increase over 1990 figures. Further, 85% of these respondents expect comparable store sales to increase, while only 15% expect comparable sales to be flat. These retailers are the most optimistic, in sharp contrast to the supermarket respondents and may be witnessing the national economy rebound before other segments.

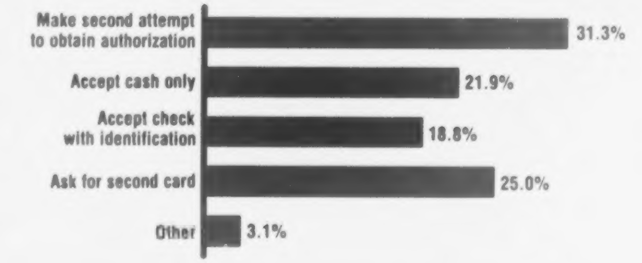
The average cash transaction increased from $3 to $6.50 between 1990 and 1991. Personal check and credit transactions also increased. The average check amount increased 26% to $22, while the average credit transaction increased 10% to $22.

Credit sales make up 16% of total sales, which is consistent with the prior year. Most convenience store operations accept at least three major third-party cards. Private-label cards are not mentioned by the respondents.

Cost of Credit: For retailers of-

CONVENIENCE STORES

PROCEDURES WHEN CREDIT AUTHORIZATION DENIED



DOES THE COMPANY OFFER . . .

	Yes	No
A discount to cash customers	15.38%	84.62%
"Cash only" registers	15.38	84.62
In-store third-party credit applications	30.77	69.23
Instant credit upon receipt of application	11.11	88.89
Incentives to new credit applicants	11.11	88.89

fering their own card, the cost of credit card operations as a percentage of sales averages 0.5% of sales and 1% of credit sales. In total, account collection and bad-debt expense each represent 20% of the total credit costs, with in-store credit accounting for 10% and management of credit costing 15%. The remainder is spread among account servicing, new accounts and data processing.

While 20% of the respondents acknowledge an increase in credit chargebacks, 58% report that chargebacks have remained stable. Almost two-thirds (60%) of the convenience store respondents believe that their processors are effective in monitoring third-party credit chargebacks.

Finally, only 33% of the respondents indicate that they have experienced third-party credit fraud, less than any other retail group surveyed.

Marketing: About half of the convenience retailers that use their own credit cards use billing stuffers and/or coupons in their marketing. None of these retailers offers "merchandise for credit customers only," frequent-shopper programs, seasonal ad books or more lenient credit terms during specific seasons to increase sales.

Unlike many other segments, this group does not report a significantly higher incidence of bankruptcy over the prior period, nor are other write-offs reported to be increasing. While half of the participants offer their own credit, only one company says it establishes goals to increase the number of credit card accounts.

Similarly, only one participant offers either instant credit upon receipt of the application or incentives to new credit applicants. Less than 20% of these respondents quantify the incremental sales impact of their credit card operations, yet 100% are convinced that their sales will be significantly damaged if they stop accepting credit. Approximately one-third say they use credit information to predict sales.

Convenience retailers rank cooperative advertising highest, followed by mailing stuffers, demographic information and customer profiles as services they like to receive from third-party credit providers.

Credit Technology: While 77% of the respondents perform credit authorization at the point of sale, the majority of the remaining respondents plan to. These retailers implement credit authorization technology primarily to enhance customer service, reduce bank card processing costs and improve the company's cash float position.

Convenience retailers also employ credit authorization technologies to reduce expenses, gain a competitive edge and decrease clerical errors at the point of sale and in the back office.

The average credit authorization processing time at the register for third-party credit cards is 20 seconds, with three-quarters of the respondents falling within a range of 14 to 68 seconds.

Emerging Trends: Convenience retailers are interested in automated authorization and scanning techniques. Approximately 75% of the respondents say they are using automated authorization technology, and an additional 8% intend to use this technology in the next 12 to 18 months. The 15 percentage point increase over last year's response indicates the continuing penetration of this cost-efficient technology.

Similarly, 42% of the respondents use scanning, and an additional 8% intend to implement it within 18 months.

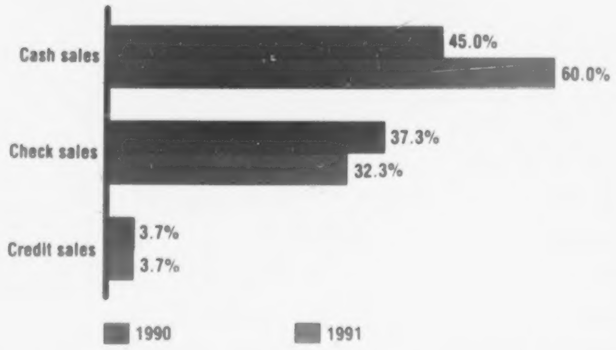
Only 9% of the respondents expect to add more ATMs in 12 to 18 months. Similarly, use of debit cards will increase during this period as approximately 9% of the respondents plan to implement them within 12 to 18 months.

Most of the respondents are not interested in smart shopper programs, cash back on credit sales, self-checkout, artificial intelligence and EDI in the credit function.

About one-third of the respondents report they expect discount rates for third-party credit cards to increase; 17% expect a decrease; and 50% expect no change. Only 25% are certain they would pass such an increase to customers, while 50% say they would not.

SUPERMARKETS

PERCENTAGE OF TOTAL TRANSACTIONS



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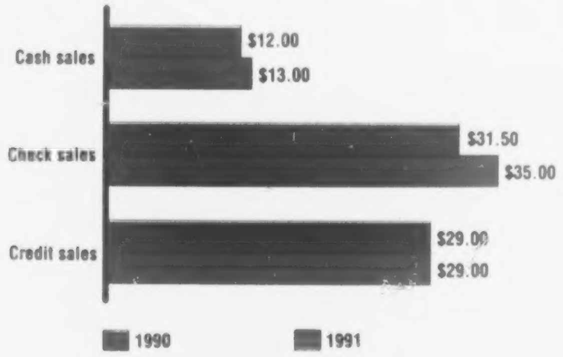
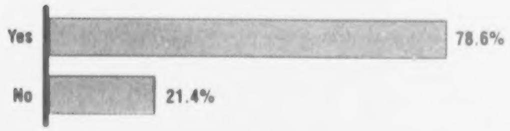
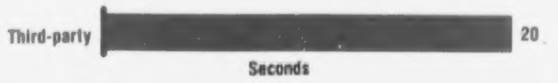
AVERAGE SALES TRANSACTION AMOUNTS



IS CREDIT AUTHORIZATION PERFORMED AT POS LOCATION?



AVERAGE CREDIT AUTHORIZATION PROCESSING TIME



The supermarket industry mirrors the state of the national economy. Real sales in this industry segment dropped in 1990, the second reported decline in 10 years. Even the bigger chains with larger stores were generally unable to keep pace, and they too experienced real sales declines.

Supermarket retailers are approaching 1991 with numerous concerns, including the impact and duration of the recession, the effect of the growing wholesale clubs sector, customer price sensitivity, the weak financial condition of many over leveraged chains and combative competition in most major markets.

In the face of this news, we look for supermarkets to react aggressively and spearhead new drives in new directions. More and more, supermarkets are looking at credit and electronic cash payment systems to drive their sales, maintain their customer base and give them insight into customer purchasing habits.

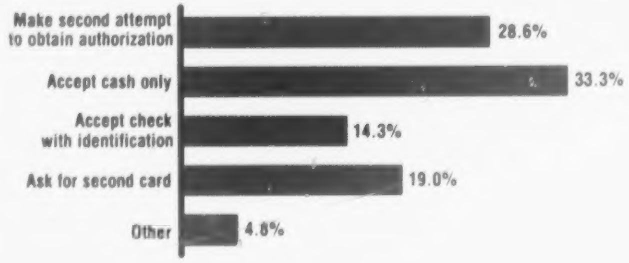
The supermarket respondents seem particularly focused on credit, including debit systems and check authorization systems, not only for the convenience of customers, but also for the micromarketing opportunities they offer the retailer.

More than 15 of the respondents to the Arthur Andersen/*Chain Store Age Executive* survey identify themselves as supermarkets. Approximately 20% of these retailers boast revenues in excess of $1 billion. Fewer than half (47%) had sales under $200 million. The remainder of the respondents report sales in the $200 million to $999 million range. The majority of these retailers are privately held companies.

Approximately 67% of supermarket respondents report that they accept third-party credit cards, up from 43% in 1990. MasterCard and Visa are utilized by two-thirds of the respondents, while Discover is accepted by one-third of the group. This increase reflects the heavy focus third-party providers have placed on pene-

SUPERMARKETS

PROCEDURE WHEN CREDIT AUTHORIZATION DENIED



trating and expanding into the supermarket industry.

Recently several third-party providers have dropped the discount rate to 1% in order to aggressively pursue supermarkets. Approximately 20% of the supermarkets surveyed offer their own credit cards. None offer private-label cards. In general, there were not enough responses to many questions in the survey to draw meaningful conclusions about credit costs and technology.

Sales Trends: As a group, supermarket retailers are markedly optimistic in their expectations for sales. Similar to our 1990 survey participants, 64% of these respondents project an increase in comparable store sales, and 14% expect same store sales to remain unchanged from 1990.

An unusually high number of respondents (22%) say they expect a decline in comparable store sales, clearly reflecting some skepticism about future economic trends. Our 1991 results portray an overall shift towards pessimism.

Approximately half of the responding supermarket retailers who accept credit cards expect credit sales to increase as a percentage of total sales. Forty percent expect credit sales to remain the same, and 10% anticipate a decline.

For supermarkets respondents, credit sales as a percentage of total sales increased from 1.6% to 1.75% last year, and these same companies report an increase in the number of cards accepted. Two-thirds of these respondents evaluate their third-party credit processors as very or somewhat effective in helping them identify excessive chargebacks that may be fraudulent.

Marketing: Supermarket retailers indicate that they value receiving customer profiles, demographic information for target marketing and cooperative advertising from third-party credit providers. There was an insufficient response rate from supermarket retailers with their own credit cards to draw any conclusions about marketing techniques.

Emerging Trends: Retailers in this group express surprisingly little interest in private-label cards or in-house credit, self-checkout and other technologies. Approximately 77% of this group report that they scan, and another 8% intend to implement scanning within the next 12 to 18 months. Over 60% indicate that they use or intend to implement automated authorization systems.

Close to 70% of the reporting supermarket retailers now have automatic teller machines in store locations, up from less than 50% of the respondents in 1990. Debit cards also represent an area of expansion and interest, with 50% of the respondents indicating they currently accept debit cards or will begin to in the next 12 to 18 months.

Supermarket retailers are extremely conscious of discount fees because of their low operating margins. Over 80% report that third-party rates influence their payment preference activity at the point of sale. Few of the respondents have attempted to quantify the impact of credit in generating incremental sales, but those who have report that incremental sales increased approximately 5%.

Customer service is the principal reason cited for offering credit, although incremental sales increase is a very close second. Reducing cash handling, attracting better customers and targeting marketing opportunities are distant runners-up.

DOES THE COMPANY OFFER . . .

	Yes	No
A discount to cash customers	0.00%	100.00%
"Cash only" registers	50.00	50.00
In-store third-party credit applications	41.67	58.33
Instant credit upon receipt of application	0.00	100.00
Incentives to new credit applicants	0.00	100.00

THIRD-PARTY CREDIT PROCESSING METHODS

	Currently Using	Don't use, but plan to	Don't use, no plans to
Bank	100.00%	0.00%	0.00%
Third-party processors	40.00	20.00	40.00
Service bureau	0.00	0.00	100.00

APPENDIX

AVERAGE SALES TRANSACTIONS $

	PARTICIPANTS BY TYPE OF RETAILER															
	Convenience stores		Department stores		Discount stores		Mass merchants		Home centers		Specialty/ apparel		Specialty/ non-apparel		Supermarkets	
	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990	1991	1990
Cash	6.50	3.00	20,00	20.50	20.00	20.00	55.00	43.00	30.00	25.00	45.00	44.50	15.00	18.00	13.00	12.00
Check	**22.00**	**17.50**	**36.50**	**34.00**	**37.00**	**31.50**	**62.00**	**57.50**	**46.00**	**45.00**	**50.00**	**55.00**	**45.00**	**48.50**	**35.00**	**31.50**
Credit	22.00	20.00	45.00	47.00	54.00	51.00	70.00	70.00	63.00	60.00	60.00	55.00	40.00	40.00	29.00	29.00

AVERAGE COST OF CREDIT ACTIVITIES AS A PERCENT OF TOTAL COSTS

	PARTICIPANTS BY TYPE OF RETAILER							PARTICIPANTS BY 1991 SALES VOLUME IN $MILLIONS				
	Conv Store	Dept Store	Discount Store	Mass Merchant	Home Center	Spec/ Apparel	Spec/Non-Apparel	Super-market	$0-$50	$50-$200	$200-$999	$1,000 or more
New accounts	10.00	10.00	10,00	15.00	5.00	5.50	10.00	5.00	9.00	10.00	23.70	9.15
Account servicing	**10.00**	**20.00**	**10.00**	**15.00**	**15.00**	**15.00**	**17.50**	**10.00**	**15.00**	**15.00**	**10.00**	**20.80**
Account collection	20.00	14.10	15.00	10.00	10.00	15.00	22.50	70.00	14.00	20.00	15.00	14.10
In-store credit	**15.00**	**2.00**	**10.00**	**5.00**	**5.00**	**5.00**	**6.00**	**00.0**	**5.00**	**10.00**	**2.25**	**2.50**
Data processing for credit	10.00	5.80	15.00	25.00	10.00	12.25	17.50	00.0	17.50	12.50	6.95	4.30
Management of credit	**15.00**	**8.00**	**10.00**	**25.00**	**10.00**	**10.00**	**5.00**	**10.00**	**14.00**	**10.00**	**5.90**	**10.00**
Bad-debt expense	20.00	40.10	30.00	5.00	15.00	26.25	13.00	5.00	12.50	20.00	26.65	30.55
Other	00.00	00.00	00.00	00.00	30.00	11.00	8.50	00.00	13.00	2.50	9.55	8.60

TERMS AND DEFINITIONS

Discount or Interchange Rate: Fees charged (usually a percentage of total transaction amount) by entity which processes credit card transactions.

Credit Securitization: Financing technique which allows retailers to borrow money using receivables as collateral.

Non-Recourse Receivables: Receivables which are sold outright by the retailer and all risk of loss is born by the purchaser.

Private Label Credit Card: Credit card bearing the retailers name which is generally owned and processed by a third party for a fee.

Private Label Provider: Entity, usually a bank or finance company, which extends credit and processes transactions for a retailers private label program.

Third Party Credit Card: Credit card issued directly to the customer which can be used in a variety of places (i.e., MasterCard, Visa, American Express, etc.).

Company Credit Card: Credit card which is owned and processed internally by the issuing retailer.

Chargebacks: Disputed customer charges on third party cards which are passed through to the retailer.

Debit Cards: Customer cards issued by banks which automatically deduct transaction amounts directly from customer account balances.

Co-Branding: Credit card bearing retailer's name and logo as well as third party brandmark (i.e., MasterCard).

Smart Cards: Credit card which accumulates additional information electronically such as frequent shopper awards, etc.

Self Checkout: Process where a customer checks out and pays for purchases without the aid of store personnel.

Micro Marketing: Marketing focused on a specific target audience with common characteristics or attributes.

APPENDIX

SERVICES IN ORDER OF PREFERENCE BY TYPE OF RETAILER

	RANK ORDER*							
	Convenience stores	Department stores	Discount stores	Mass merchants	Home centers	Specialty/ apparel	Specialty/ non-apparel	Super-markets
Customer profiles	3.0	2.0	4.0	2.5	4.0	1.0	2.0	2.0
Demographic information for target marketing	**1.5**	**1.0**	**2.5**	**2.5**	**1.0**	**2.0**	**1.0**	**1.0**
Cooperative advertising	1.5	3.0	1.0	1.0	2.0	3.0	3.0	3.5
Promotional offers via mailing stuffers	**4.0**	**4.0**	**2.5**	**4.0**	**3.0**	**4.0**	**4.0**	**3.5**

*1 = most preferred

SERVICES IN ORDER OF PREFERENCE

PARTICIPANTS BY 1991 SALES VOLUME $MILLIONS

	RANK ORDER*			
	$0-$50	$50-$200	$200-$999	$1,000 or more
Customer profiles	2	3	3	2
Demographic information for target marketing	**1**	**1**	**1**	**1**
Cooperative advertising	3	2	2	3
Promotional offers via mailing stuffers	**4**	**4**	**4**	**4**

*1 = most preferred

WHY DID OR WOULD THE COMPANY IMPLEMENT CREDIT AUTHORIZATION TECHNOLOGY?

BY TYPE OF RETAILER

	RANK ORDER*							
	Convenience stores	Department stores	Discount stores	Mass merchants	Home centers	Specialty/ apparel	Specialty/ non-apparel	Super-markets
Eliminate bad credit situations	7.0	3.0	5.5	5.0	7.0	6.0	6.0	6.0
Increase POS' register throughput	**8.0**	**8.0**	**4.0**	**3.0**	**2.5**	**7.0**	**5.0**	**3.0**
Improve the company's cash-float position	3.0	4.0	7.5	7.0	8.0	5.0	3.0	8.0
Decrease clerical errors	**5.0**	**5.0**	**7.5**	**8.0**	**4.0**	**4.0**	**7.0**	**7.0**
Reduce expenses	2.0	2.0	2.0	4.0	5.5	2.0	4.0	2.0
Gain a competitive edge	**6.0**	**7.0**	**5.5**	**6.0**	**5.5**	**8.0**	**8.0**	**5.0**
Improve customer service	1.0	1.0	3.0	1.5	1.0	1.0	1.0	1.0
Reduce bankcard processing costs	**4.0**	**6.0**	**1.0**	**1.5**	**2.5**	**3.0**	**2.0**	**4.0**

*1 = most preferred

APPENDIX

CREDIT AUTHORIZATION TECHNIQUES

	PERCENT PARTICIPANTS BY TYPE OF RETAILER										
	CONVENIENCE STORE			DEPARTMENT STORE			DISCOUNT STORE			MASS MERCHANT	
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, NO PLANS
Dial service bureau & read number	22.22	00.00	77.78	30.77	7.69	61.54	12.50	00.00	87.50	00.00	100.00
Magnetic swipe reader (separate from POS terminal)	**44.44**	**22.22**	**33.33**	**25.00**	**00.00**	**75.00**	**58.33**	**00.00**	**41.67**	**50.00**	**50.00**
Magnetic swipe reader (as part of POS terminal)	41.67	16.67	41.67	75.00	12.50	12.50	41.67	16.67	41.67	83.33	16.67
Manually read 'bad number' report	**40.00**	**00.00**	**60.00**	**00.00**	**9.09**	**90.91**	**00.00**	**00.00**	**100.00**	**00.00**	**100.00**
Dial up leased lines	44.44	00.00	55.56	40.00	00.00	60.00	11.11	00.00	88.89	20.00	80.00
Satellite communications (VSAT)	**12.50**	**00.00**	**87.50**	**10.00**	**00.00**	**90.00**	**00.00**	**00.00**	**100.00**	**16.67**	**83.33**
Other	25.00	00.00	75.00	00.00	00.00	100.00	00.00	00.00	100.00	00.00	100.00

	HOME CENTER			SPECIALTY/ APPAREL			SPECIALTY/NON-APPAREL			SUPERMARKET		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
	22.22	00.00	77.78	29.17	4.17	66.67	20.59	00.00	79.41	42.86	00.00	57.14
	72.73	**00.00**	**27.27**	**64.29**	**00.00**	**35.71**	**75.61**	**2.44**	**21.95**	**58.33**	**16.67**	**25.00**
	58.33	25.00	16.67	45.16	22.58	32.26	21.62	45.95	32.43	20.00	40.00	40.00
	22.22	**00.00**	**77.78**	**4.17**	**00.00**	**95.83**	**9.38**	**00.00**	**90.63**	**28.57**	**00.00**	**71.43**
	11.11	11.11	77.78	19.23	00.00	80.77	30.30	3.03	66.67	00.00	28.57	71.43
	10.00	**20.00**	**70.00**	**00.00**	**00.00**	**100.00**	**00.00**	**9.38**	**90.63**	**00.00**	**14.29**	**85.71**
	66.67	00.00	33.33	20.00	00.00	80.00	00.00	00.00	100.00	00.00	00.00	100.00

CREDIT AUTHORIZATION TECHNIQUES

	PERCENT PARTICIPANTS BY 1991 SALES VOLUME IN $MILLIONS											
	$0-$50			$50-$200			$200-$999			$1,000 or more		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Dial service bureau & read number	23.91	4.35	71.74	40.00	00.00	60.00	17.24	00.00	82.76	10.00	00.00	90.00
Magnetic swipe reader (separate from POS terminal)	**70.18**	**1.75**	**28.07**	**63.64**	**6.06**	**30.30**	**56.25**	**6.25**	**37.50**	**36.36**	**00.00**	**63.64**
Magnetic swipe reader (as part of POS terminal)	28.85	21.15	50.00	25.81	38.71	35.48	60.53	28.95	10.53	68.75	25.00	6.25
Manually read 'bad number' report	**10.87**	**2.17**	**86.96**	**25.00**	**00.00**	**75.00**	**3.70**	**00.00**	**96.30**	**00.00**	**00.00**	**100.00**
Dial up leased lines	17.39	2.17	80.43	37.50	00.00	62.50	25.81	6.45	67.74	23.08	15.38	61.54
Satellite communications (VSAT)	**4.55**	**00.00**	**95.45**	**00.00**	**4.17**	**95.83**	**7.14**	**10.71**	**82.14**	**10.00**	**20.00**	**70.00**
Other	10.53	00.00	89.47	22.22	00.00	77.78	00.00	00.00	100.00	00.00	00.00	00.00

APPENDIX

TYPE OF CREDIT OFFERED

	PERCENT PARTICIPANTS BY TYPE OF RETAILER											
	CONVENIENCE STORE			DEPARTMENT STORE			DISCOUNT STORE			MASS MERCHANT		
	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CURRENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS
Company's own card	58.33	00.00	41.67	89.47	00.00	10.53	8.33	8.33	83.33	16.67	00.00	83.33
Private-label	**00.00**	**9.09**	**90.91**	**12.50**	**00.00**	**87.50**	**7.69**	**7.69**	**84.62**	**25.00**	**00.00**	**75.00**
American express	50.00	00.00	50.00	90.00	00.00	10.00	46.15	00.00	53.85	14.29	00.00	85.71
Diners club	**00.00**	**00.00**	**100.00**	**25.00**	**00.00**	**75.00**	**9.09**	**00.00**	**90.91**	**00.00**	**00.00**	**100.00**
Discover	84.62	00.00	15.38	62.50	6.25	31.25	64.29	21.43	14.29	62.50	25.00	12.50
Mastercard	**83.33**	**16.67**	**00.00**	**94.74**	**00.00**	**5.26**	**92.86**	**00.00**	**7.14**	**85.71**	**00.00**	**14.29**
Optima	36.36	00.00	63.64	83.33	00.00	16.67	46.15	7.69	46.15	00.00	00.00	100.00
Visa	**84.62**	**15.38**	**00.00**	**94.74**	**00.00**	**5.26**	**92.86**	**00.00**	**7.14**	**85.71**	**00.00**	**14.29**
Affinity card	00.00	00.00	100.00	00.00	00.00	100.00	00.00	00.00	100.00	14.29	00.00	85.71
Debit card	**00.00**	**20.00**	**80.00**	**6.67**	**6.67**	**86.67**	**15.38**	**00.00**	**84.62**	**00.00**	**00.00**	**100.00**

MARKETING TECHNIQUES USED WITH COMPANY-OWNED CREDIT CARDS

	PERCENT BY TYPE OF RETAILER											
	CONVENIENCE STORE			DEPARTMENT STORE			DISCOUNT STORE			MASS MERCHANT		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Billing stuffers	28.57	14.29	57.14	100.00	00.00	00.00	50.00	00.00	50.00	100.00	00.00	00.00
Promotional mailings	**14.29**	**28.57**	**57.14**	**93.75**	**6.25**	**00.00**	**00.00**	**100.00**	**00.00**	**100.00**	**00.00**	**00.00**
Discount/coupons	28.57	00.00	71.43	87.50	6.25	6.25	50.00	00.00	50.00	00.00	50.00	50.00
Frequent shopper programs	**00.00**	**00.00**	**100.00**	**37.50**	**12.50**	**50.00**	**00.00**	**100.00**	**00.00**	**00.00**	**50.00**	**50.00**
Future promotions information	00.00	14.29	85.71	62.50	6.25	31.25	00.00	50.00	50.00	00.00	00.00	100.00
Seasonal ad books	**00.00**	**00.00**	**100.00**	**81.25**	**6.25**	**12.50**	**50.00**	**00.00**	**50.00**	**50.00**	**00.00**	**50.00**
Merchandise for credit customers only	00.00	00.00	100.00	37.50	00.00	62.50	00.00	00.00	100.00	00.00	50.00	50.00
More lenient terms during seasons	**00.00**	**00.00**	**100.00**	**62.50**	**6.25**	**31.25**	**50.00**	**00.00**	**50.00**	**00.00**	**00.00**	**100.00**
Other	00.00	00.00	100.00	50.00	00.00	50.00	00.00	00.00	00.00	00.00	00.00	00.00

	HOME CENTER			SPECIALTY/ APPAREL			SPECIALTY/NON-APPAREL			SUPERMARKET		
	CUR-RENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CUR-RENTLY OFFER	NO, BUT PLAN TO	NO, NO PLANS	CUR-RENTLY OFFER	NO, BUT PLAN TO	CUR-NO, NO PLANS	NO, BUT RENTLY OFFER	PLAN TO	NO, NO PLANS
	46.15	00.00	53.85	26.47	8.82	64.71	20.93	2.33	76.74	25.00	00.00	75.00
	50.00	16.67	33.33	11.11	7.41	81.48	17.50	2.50	80.00	00.00	00.00	100.00
	50.00	8.33	41.67	81.82	00.00	18.18	69.57	00.00	30.43	10.00	00.00	90.00
	00.00	00.00	100.00	17.24	00.00	82.76	26.19	00.00	73.81	00.00	00.00	100.00
	84.62	00.00	15.38	64.52	9.68	25.81	82.61	10.87	6.52	41.67	16.67	41.67
	100.00	00.00	00.00	100.00	00.00	00.00	95.65	00.00	4.35	71.43	14.29	14.29
	41.67	8.33	50.00	69.70	00.00	30.30	47.62	00.00	52.38	10.00	00.00	90.00
	100.00	00.00	00.00	100.00	00.00	00.00	95.56	00.00	4.44	71.43	14.29	14.29
	9.09	00.00	90.91	7.14	00.00	92.86	5.26	00.00	94.74	00.00	00.00	100.00
	00.00	20.00	80.00	3.57	7.14	89.29	13.16	7.89	78.96	8.33	33.33	58.33

	HOME CENTER			SPECIALTY/ APPAREL			SPECIALTY/NON-APPAREL			SUPERMARKET		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
	42.86	00.00	57.14	90.00	00.00	10.00	81.82	9.09	9.09	00.00	50.00	50.00
	57.14	14.29	28.57	100.00	00.00	00.00	90.91	00.00	9.09	50.00	00.00	50.00
	57.14	00.00	42.86	60.00	20.00	20.00	70.00	00.00	30.00	50.00	00.00	50.00
	00.00	57.14	42.86	20.00	40.00	40.00	12.50	25.00	62.50	50.00	50.00	00.00
	28.57	14.29	57.14	60.00	20.00	20.00	44.44	00.00	55.56	50.00	00.00	50.00
	14.29	28.57	57.14	60.00	10.00	30.00	33.33	11.11	55.56	00.00	00.00	100.00
	00.00	14.29	85.71	22.22	00.00	77.78	00.00	12.50	87.50	00.00	50.00	50.00
	14.29	00.00	85.71	30.00	20.00	50.00	40.00	00.00	60.00	00.00	00.00	100.00
	00.00	00.00	100.00	00.00	00.00	00.00	00.00	00.00	100.00	00.00	00.00	00.00

APPENDIX

EMERGING RETAIL ISSUES

	PERCENT PARTICIPANTS BY TYPE OF RETAILER								
	CONVENIENCE STORE		DEPARTMENT STORE			DISCOUNT STORE		MASS MERCHANT	
	USE	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, NO PLANS	USE	DON'T USE, NO PLANS
Smart cards	00.00	100.00	00.00	6.25	93.75	00.00	100.00	00.00	100.00
Smart shopper program	00.00	100.00	00.00	6.67	93.33	33.33	66.67	00.00	100.00
Credit securitization	11.11	88.89	11.76	11.76	76.47	33.33	66.67	00.00	100.00
Cash back on credit sales	00.00	100.00	5.88	00.00	94.12	00.00	100.00	00.00	100.00
Autodial collection systems	00.00	100.00	43 75	00.00	56.25	00.00	100.00	00.00	100.00
Artificial intelligence	00.00	100.00	17.65	5.88	76.47	00.00	100.00	00.00	100.00
VIP customer cards	00.00	100.00	25.00	00.00	75.00	00.00	100.00	50.00	50.00

	HOME CENTER			SPECIALTY/ APPAREL			SPECIALTY/NON-APPAREL			SUPERMARKET	
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	DON'T USE, PLAN TO	DON'T USE, NO PLANS
	00.00	16.67	83.33	00.00	00.00	100.00	00.00	11.11	88.89	00.00	100.00
	00.00	16.67	83.33	00.00	10.00	90.00	00.00	11.11	88.89	33.33	66.67
	16.67	16.67	66.67	20.00	00.00	80.00	20.00	20.00	60.00	50.00	50.00
	00.00	16.67	83.33	10.00	10.00	80.00	00.00	22.22	77.78	00.00	100.00
	00.00	16.67	83.33	20.00	20.00	60.00	10.00	20.00	70.00	00.00	100.00
	00.00	16.67	83.33	10.00	00.00	90.00	11.11	11.11	77.78	00.00	100.00
	00.00	16.67	83.33	10.00	20.00	70.00	00.00	22.22	77.78	33.33	66.67

EMERGING RETAIL ISSUES

	PERCENT PARTICIPANTS BY 1991 SALES VOLUME IN $MILLIONS											
	$0-$50			$50-$200			$200-$999			$1,000 or more		
	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS	USE	DON'T USE, PLAN TO	DON'T USE, NO PLANS
Smart cards	00.00	9.09	90.91	00.00	00.00	100.00	00.00	7.69	92.31	00.00	00.00	100.00
Smart shopper program	4.55	13.64	81.82	00.00	00.00	100.00	00.00	7.69	92.31	00.00	11.11	88.89
Credit securitization	13.64	9.09	77.27	14.29	00.00	85.71	14.29	14.29	71.43	20.00	20.00	60.00
Cash back on credit sales	4.55	13.64	81.82	00.00	00.00	100.00	7.14	7.14	85.71	00.00	00.00	100.00
Autodial collection systems	4.55	4.55	90.91	00.00	00.00	100.00	23.08	23.08	53.85	54.55	9.09	36.36
Artificial intelligence	00.00	4.55	95.45	00.00	00.00	100.00	21.43	7.14	71.43	20.00	10.00	70.00
VIP customer cards	13.64	9.09	77.27	00.00	7.14	92.86	15.38	15.38	69.23	10.00	10.00	80.00

Chain Store Age EXECUTIVE

with Shopping Center Age

The newsmagazine for retail management

FEBRUARY 1992

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FOR MOST, ANOTHER DISMAL CHRISTMAS

FOR OTHERS, THE WEAKENED ECONOMY PROVIDES A LIFT

Retail sales fell 0.4% in December, finishing off a year in which sales were flatter than they'd been in 30 years, according to the Commerce Department. Even Wal-Mart did not avoid the holiday hit—its same-store sales results, which had been in the double digits all year, increased a comparatively meager 5% during the month.

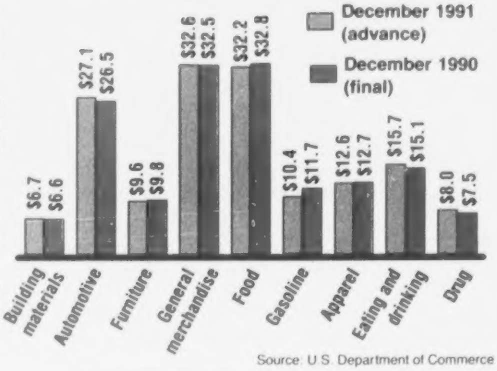
Still, the recession is proving to be a kingmaker for certain retailers whose rock-bottom prices fit neatly with consumers' tight-spending. Dollar General's same-store sales increased 20%, the best one-month increase in the company's history. Value City's same-store sales rose 9.2%.

While consumers may have scrimped on themselves, they were generous with their children, as evidenced by the 16.4% same-store increase of Toys "R" Us.

On a month-over-month seasonally adjusted basis, sales results look somewhat better. The Mitsubishi Bank retail index, which accounts for calendar quirks, shows an industry sales rise of 2% in December.

DECEMBER SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	December '91 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$5,860,000	+26.0	+ 5.0	$40,580,000	+35.0	+10.0
Kmart	4,880,000	+10.6	+ 4.0	31,870,000	+ 7.6	+ 3.4
Sears	3,810,000	− 2.0	− 1.8	30,920,000	− 1.5	− 1.7
Penney	2,440,000	+ 1.4	+ 0.1	15,070,000	− 1.3	− 2.3
Dayton Hudson	2,450,000	+ 8.2	+ 1.5	14,720,000	+ 8.9	+ 1.7
May	1,680,000	+ 2.5	− 1.0	9,920,000	+ 5.8	− 1.0
Melville[1]	1,360,000	+ 3.9	+ 0.8	9,850,000	+13.4	+ 0.4
Walgreen[5]	838,760	+11.0	+ 7.6	6,981,114	+11.3	+ 7.5
Woolworth	826,000	+ 5.6	− 0.5	5,273,000	+ 3.1	− 1.7
The Limited	996,600	+21.0	+ 3.0	5,670,000	+17.0	+ 3.0
Mercantile	388,000	+ 4.2	+ 3.0	2,280,000	+ 2.9	+ 1.4
Circuit City[2]	469,700	+16.0	+ 2.0	N/R	N/R	N/R
The Gap	398,000	+30.0	+14.0	2,340,000	+30.0	+12.0
Rose's	197,924	N/R	− 0.5	1,352,572	N/R	− 0.5
Neiman-Marcus Group[3]	267,300	+ 0.4	− 4.0	867,500	+ 1.1	− 3.0
Venture Stores	254,900	+ 9.3	+ 3.7	1,417,500	+ 6.8	+ 3.1
Edison Bros.	210,000	+ 2.6	N/R	1,280,000	+10.5	N/R
Jamesway	120,900	− 1.0	+ 4.0	210,700	− 2.0	− 1.0
Charming Shoppes	133,500	+13.0	+ 4.0	948,800	+15.0	+ 6.0
Ross	134,000	+17.0	+ 7.0	870,000	+16.0	+ 2.0
Value City	116,800	+15.2	+ 9.2	335,900	+17.1	+11.3
Dollar General	111,200	+25.2	+20.0	693,800	+14.7	+10.0
Best Buy[4]	187,000	+48.0	+16.0	776,000	+35.0	+11.0
Gottschalks	60,816	+ 1.6	+ 0.2	298,447	+ 9.2	+ 4.1
Claire's	47,062	− 7.0	−13.0	241,081	N/C	−11.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R not reported N/C no change

Source: Company reports

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The newsmagazine for retail management

MARCH 1992

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NEW REALISM MARKS CONTEMPORARY DESIGNS

RETAIL STORES OF THE YEAR

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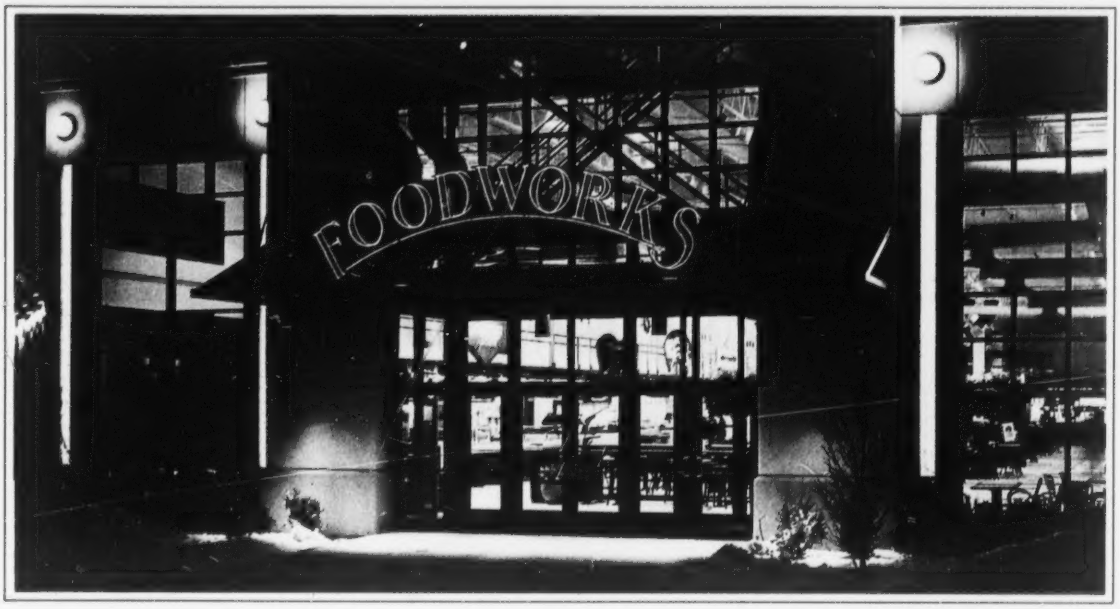

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RETAILERS REPORT SALES GAINS FOR JANUARY

BUT ANALYSTS SAY RESULTS MAY BE A GLITCH

Sales of the nation's leading chain stores exploded from their persistent doldrums in January, posting their best year-over-year performance since March 1985.

Based on the Mitsubishi Bank retail chain store sales index, January sales rose 9% over year-ago comparable store levels, compared to a 2.6% pace for all of 1991. The index is based on sales for 41 retailers.

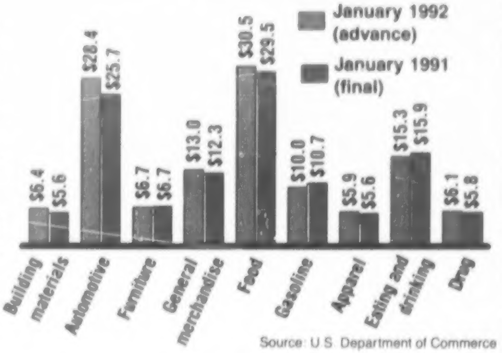
Analysts warn, however, that the magnitude of the strength is somewhat cosmetic due to the easy comparison against January 1991, when the war in the Persian Gulf began.

In addition, as Charles Siegel, chairman of 50-Off, noted, "January sales traditionally contribute only a small portion of a company's annual sales. It would be inappropriate to place a great significance" on the month's results.

Still, the results have raised some optimism, since historically, a large surge in chain store sales often is a signal of a coming economic rebound.

JANUARY SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	January '92 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$3,310,000	+33.0	+13.0	$43,889,000	+35.0	+10.0
Kmart	2,711,711	+10.3	+ 6.2	34,579,098	+ 7.8	+ 3.7
Sears	2,793,700	+ 8.6	+ 7.7	33,709,136	− 0.7	− 1.0
Penney	1,159,000	+ 6.5	+ 6.0	16,201,000	− 1.0	− 1.8
Dayton Hudson	1,140,000	+15.0	+ 8.2	15,860,000	+ 9.4	+ 2.2
May	663,400	+13.0	+ 8.7	10,402,000	+ 5.5	− 0.3
Melville[1]	692,196	+ 8.1	+ 6.1	692,196	+ 8.1	+ 6.1
Walgreen[5]	595,770	+11.5	+ 8.1	595,770	+11.5	+ 8.1
Woolworth	419,000	+ 9.9	+ 6.0	5,695,000	+ 3.6	− 1.1
The Limited	359,400	+15.0	+ 9.0	6,149,000	+17.0	+ 3.0
Mercantile	155,000	+ 4.6	+ 3.7	2,440,000	+ 3.0	+ 1.3
Circuit City[2]	227,300	+28.0	+13.0	N/R	N/R	N/R
The Gap	183,000	+31.0	+14.0	2,519,000	+30.0	+13.0
Rose's	70,766	+ 4.9	+12.5	1,423,279	−10.0	+ 0.3
Neiman-Marcus Group[3]	108,400	+ 0.7	− 3.6	975,500	+ 1.1	− 3.0
Venture Stores	88,100	+12.6	+ 7.9	1,522,400	+ 7.2	+ 3.4
Edison Bros.	107,800	+12.2	N/R	1,390,000	+10.5	N/R
Jamesway	43,800	− 1.0	+ 6.0	855,100	− 3.0	+ 1.0
Charming Shoppes	71,300	+23.0	+12.0	1,020,100	+15.0	+ 6.0
Ross	59,000	+11.0	+ 4.0	930,000	+16.0	+ 2.0
Value City	27,400	+14.4	+ 9.2	363,300	+16.9	+11.1
Dollar General	56,700	+31.7	+27.8	750,600	+15.8	+11.1
Best Buy[4]	74,000	+64.0	+26.0	850,000	+37.0	+12.0
Gottschalks	16,100	+14.3	+11.0	314,600	+ 9.4	+ 3.5
Claire's	12,833	− 5.0	−11.0	253,914	− 1.0	−11.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R = not reported N/C = no change

Source: Company reports

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Mary and Zachary Schwartz

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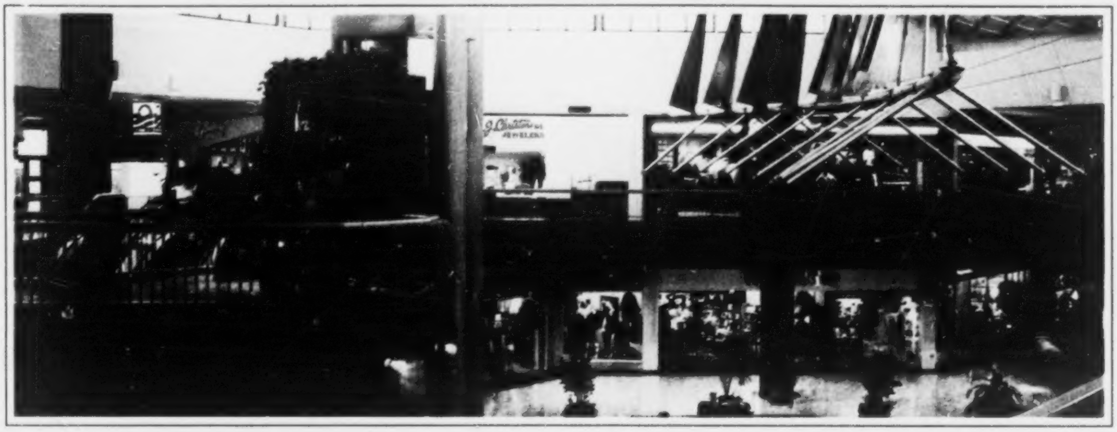

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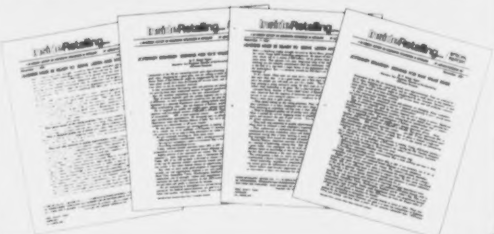

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Mappes points out that the major long distance interexchange carriers have all converted their networks to digital transport and switching. The local telephone companies, he admits, have not quite kept pace.

"But digital technology is available just about anywhere, especially the major metropolitan areas," he says. "It will be the platform for future service offerings from the telephone companies."

The digital offerings available from phone companies today are based on two distinct groups of standards, Mappes says. The simplest in structure is called the Basic Rate Interface, or BRI, which features two 64KB bearer (voice or data) channels and one 16KB signaling channel.

The Primary Rate Interface, or PRI, on the other hand, packages 23 bearer channels along with one signaling channel. All channels, including the signaling channel, are 64KB.

Mappes notes that retail store communications today primarily serve the voice needs of the store. "A typical store may have five to 20 access lines for voice calls, and one to two lines for data.

"The goal of our test was to find a way to leverage the local access lines, which account for the bulk of communications costs, with ISDN PRI. We think we have succeeded."

In mid-1991, he says, Penney teamed with Southwestern Bell, MCI, Northern Telecom (a manufacturer of ISDN switches), and Teleos (a provider of ISDN-compatible customer-premise equipment) in an effort to test the concepts of ISDN. The team set up a lab environment at Penney's Dallas headquarters to simulate a typical store.

A diagram of the test configuration is shown on page 43. In the simulated store, a PBX with 50 active telephones was connected to a Teleos access server. The server was connected to a token ring LAN with a PC for testing purposes. The server was the vehicle to signal the Southwestern Bell ISDN switch as to how much capacity was needed for an application.

At the Southwestern Bell local office, the Northern Telecom DMS 100 reacted to the signals, directing calls either to local destinations or to MCI. MCI directed calls either to their VNET network or the J.C. Penney data center.

"Given this test configuration, we were able to simulate a variety of real-world situations," Mappes says. "From the PC in the simulated store, we would activate multiple applications, requesting the Teleos box to set up calls of anywhere from one to 23 channels.

"For instance, we would request a single 64KB channel for electronic mail. Leaving that active, we would request six channels and activate a multimegabyte file transfer from the host. Then we might open a third session to the server and perform queries."

Although the testing "proved the viability and reliability of ISDN technology," Mappes says, all the pieces to make ISDN a commercial success are not yet in place.

Local phone companies have shown little interest in promoting ISDN, he says, and findings from a Penney study show that initial costs of ISDN could average more than 150% above what is now paid for conventional voice and data services.

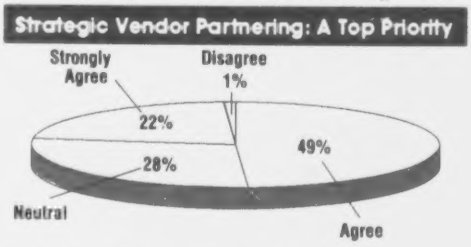
Mappes suggests that retailers should lobby telephone companies hard for cost-effective pricing, focusing on local-access costs. ■

SMOOTHER RELATIONSHIPS
TECHNOLOGY MAKES PARTNERING EASIER

The majority of top U.S. retailers believe that strategic vendor partnering—cooperative working relationships between retailers and vendors—has become a significant trend in the retail industry, and is likely to become even more prevalent.

Technology, they say, is clearly the dominant force that is making this trend possible.

That's the conclusion of a recent survey sponsored by the National Retail Foundation and Andersen Consulting. The survey found that 80% of retailers have started some type of program which calls for strategic vendor partnering, and that they are using this program to work with key vendors to streamline their trading relationships.



Most executives agree: *Strategic Vendor Partnering is a top priority over the next three years. Out of all the respondents, only one disagreed.*

Retailers who responded to the survey said they are looking to technologies such as Electronic Data Interchange (EDI) and UPC barcode marking to improve operations and reduce costs. They believe these tools give them better communication with vendors and more control over inventory levels.

The survey was conducted in September 1991, during the NRF's RISCON show in Chicago. Participants represented companies ranging in size from less than $100 million to more than $1 billion in annual revenues.

Steven J. Johnson, Andersen's managing partner for retail industry practice, says the overwhelming interest in strategic vendor partnering signals a definite shift in business philosophy throughout the retail industry.

"Not long ago, retailers would have likely called their relationship with vendors 'arms length' at best and adversarial at worst," he says. "Today, retailers are realizing that more vendor involvement in their inventory operations can make both their vendors' businesses and their own more efficient."

One way in which vendor partnering pays off, Johnson says, is in inventory replenishment decisions. When retailers share their sales data, vendors can develop forecasts, production plans and schedules—providing retailers with closer approximations of expected sales.

By keeping inventory levels closer to anticipated sales levels, stores can avoid having to discount excess inventory at the end of a season, Johnson says.

Richard T. Faul, vp of information systems, NRF, points out that 30% of the retailers who participated in the survey have well-developed informa-

REVENUES

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
CATALOG STORE CHAINS				
J.C. Penney*	5,653,000	+ 2.3	17,295,000	− 0.7
Sears, Roebuck & Co.	9,496,500	+ 0.6	31,432,900	− 1.7
Williams-Sonoma[3]	68,838	+ 7.8	196,084	+ 10.3
DEPARTMENT STORE CHAINS				
Dillard	1.321,584	+ 8.8	4,036,392	+ 12.0
May	3,285,000	+ 3.3	10,402,000	+ 5.5
Mercantile*	795,733	+ 1.1	2,442,425	+ 3.2
Neiman Marcus Group[2]	541,210	+ 0.3	975,363	+ 1.0
Nordstrom	978,056	+ 8.4	3,179,820	+ 9.9
DISCOUNT STORES				
Caldor*	636,821	+ 5.1	1,867,551	+ 5.7
Consolidated	246,284	+ 17.7	752,581	+ 13.7
Dayton Hudson*	5,249,000	+ 7.9	16,115,000	+ 9.3
Dollar General	243,063	+ 20.4	754,426	+ 15.5
Family Dollar[1]	263,899	+ 17.4	263,899	+ 17.4
Fred Meyer[3]	604,031	+ 11.5	1,986,751	+ 9.9
Kmart	10,560,000	+ 8.3	34,580,000	+ 7.8
Pamida Holdings*	164,612	− 15.8	636,364	− 4.2
Service Merchandise	1,387,811	− 1.0	3,399,752	− 1.0
Shopko[3]	397,383	+ 2.9	1,193,321	+ 5.8
Tuesday Morning	53,655	+ 15.0	123,356	+ 14.8
Value City[2]	204,500	+ 14.0	363,300	+ 16.9
Venture	521,934	+ 8.9	1,522,444	+ 7.2
Wal-Mart	13,638,860	+ 31.7	43,886,902	+ 34.6
SHOE/SPECIALTY CHAINS				
J. Baker	137,476	+ 43.9	493,542	+ 17.1
Edison Bros.	440,700	+ 4.4	1,385,300	+ 11.1
Genesco*	125,327	− 4.0	471,766	− 1.0
Melville	3,254,719	+ 5.1	9,886,183	+ 13.8
Woolworth*	3,136,000	+ 2.3	9,914,000	+ 1.3
APPAREL CHAINS				
Ann Taylor*	111,491	+ 3.0	437,711	+ 6.6
Banker's Note[3]	5,438	− 53.1	20,075	− 46.6
Charming Shoppes	295,606	+ 15.0	1,020,656	+ 15.2
Deb Shops	70,485	+ 2.9	220,337	+ 3.8
Designs	52,485	+ 29.8	150,820	+ 24.9
The Gap	803,485	+ 28.6	2,518,893	+ 30.3
Goody's Family Clothing	118,811	+ 30.2	361,742	+ 32.4
Paul Harris*	58,052	− 19.1	197,216	− 14.5
The Limited	2,056,139	+ 17.9	6,149,218	+ 17.0
Merry-Go-Round	250,048	+ 13.3	761,163	+ 21.2
Wet Seal[3]	33,351	+ 9.5	84,644	+ 7.2
OFF-PRICE APPAREL				
Burlington Coat Factory[2]	20,683	+ 8.2	591,793	+ 7.5
Clothestime	71,007	+ 25.4	258,962	+ 23.9
Dress Barn[2]	83,182	+ 8.3	170,987	+ 10.0
One Price Clothing*	40,436	+ 36.6	130,213	+ 17.5
Syms*	94,555	− 1.2	317,500	+ 1.0
TJX†	799,662	+ 12.0	2,757,715	+ 12.7
WAREHOUSE WHOLESALE CLUBS				
Costco[1]	1,402,185	+ 27.3	1,402,185	+ 27.3
Office Depot*	341,048	+ 31.2	1,300,847	+ 44.0
Price[1]	2,518,042	+ 13.8	2,518,042	+ 13.8
Staples*	186,210	+ 102.7	547,080	+ 83.1
Waban	736,549	+ 16.1	2,783,585	+ 15.5
Warehouse Club[1]	62,293	− 11.3	62,293	− 11.3

EARNINGS

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
CATALOG STORE CHAINS				
J.C. Penney	301,000	+ 46.1	528,000	− 8.5
Sears, Roebuck & Co.	289,100	+ 202.4	486,300	+ 88.9
Williams-Sonoma[3]	(1,559)	NA	(1,810)	NA
DEPARTMENT STORE CHAINS				
Dillard	93,312	+ 1.1	206,157	+ 12.8
May	266,000	+ 5.6	515,000	+ 3.0
Mercantile*	42,173	− 7.5	119,539	− 0.5
Neiman Marcus Group[2]	11,399	− 21.0	19,660	− 20.4
Nordstrom	40,859	− 11.7	135,815	+ 17.3
DISCOUNT STORES				
Caldor*	28,388	+ 13.7	5,900	+ 38.3
Consolidated	16,924	+ 142.0	20,098	+ 342.2
Dayton Hudson*	192,000	− 18.3	301,000	− 26.6
Dollar General	12,292	+ 37.9	21,052	+ 47.1
Family Dollar[1]	11,606	+ 49.2	11,606	+ 49.2
Fred Meyer[3]	5,511	+ 70.1	25,069	+ 39.2
Kmart	479,000	+ 19.2	859,000	+ 13.6
Pamida Holdings*	1,614	NA	545	− 90.4
Service Merchandise	88,670	+ 7.7	76,080	+ 25.3
Shopko[3]	14,334	+ 1.0	28,452	+ 16.9
Tuesday Morning	6,320	+ 13.4	5,367	+ 13.2
Value City[2]	14,100	+ 11.9	21,000	+ 33.8
Venture	28,441	+ 7.9	41,542	+ 20.4
Wal-Mart	602,430	+ 25.0	1,608,476	+ 24.6
SHOE/SPECIALTY CHAINS				
J. Baker	2,475	+ 2,213.1	8,024	+ 8.6
Edison Bros.	28,900	− 1.7	60,800	+ 3.1
Genesco*	1,473	− 32.0	461	− 64.0
Melville	233,638	− 0.5	346,681	− 10.0
Woolworth*	(128,000)	NA	(53,000)	NA
APPAREL CHAINS				
Ann Taylor*	(5,437)	NA	1,024	− 7.4
Banker's Note	(1,111)	NA	(3,420)	NA
Charming Shoppes	19,695	+ 35.5	58,302	+ 44.5
Deb Shops	4,977	− 31.7	8,594	− 36.7
Designs	3,033	+ 62.2	4,784	+ 128.2
The Gap	83,942	+ 48.6	229,873	+ 59.1
Goody's Family Clothing	5,259	+ 108.1	10,882	+ 221.4
Paul Harris*	3,949	NA	(3,357)	NA
The Limited	200,345	+ 16.4	403,302	+ 1.2
Merry-Go-Round	(2,507)	NA	22,704	− 39.4
Wet Seal[3]	1,207	− 54.1	2,951	− 51.0
OFF-PRICE APPAREL				
Burlington Coat Factory[2]	34,275	+ 28.4	30,314	+ 33.3
Clothestime	1,357	+ 2,124.6	5,469	+ 6,911.5
Dress Barn[2]	1,706	− 9.1	5,650	− 5.2
One Price Clothing*	2,276	+ 50.4	4,487	+ 1.4
Syms*	5,226	+ 13.0	14,261	+ 6.4
TJX†	14,034	− 8.0	70,114	− 5.4
WAREHOUSE WHOLESALE CLUBS				
Costco[1]	20,451	+ 48.8	20,451	+ 48.8
Office Depot*	6,730	+ 101.6	14,377	+ 25.2
Price[1]	50,335	+ 7.0	50,335	+ 7.0
Staples*	5,930	+ 149.7	7,938	+ 39.1
Waban	10,608	+ 213.4	30,009	+ 63.0
Warehouse Club[1]	662	+ 43.9	662	+ 43.9

N/A = not applicable because of loss in either current or comparable period
N/C = no change
*before extraordinary items or changes in accounting principles
†continuing operations only

[1] first quarter figures
[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures
Source: Company reports

FINANCE

REVENUES

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
HARD LINES CHAINS				
Best Buy[3]*	230,573	+ 35.0	589,763	+ 31.3
Blockbuster Entertainment	251,375	+ 40.2	868,003	+ 37.2
Circuit City[3]*	694,031	+ 18.6	1,886,907	+ 16.1
Fabri-Centers of America	158,530	+ 18.8	468,904	+ 21.6
Good Guys[1]	155,013	+ 24.5	155,013	+ 24.5
Hancock Fabrics*	94,853	− 9.2	388,001	+ 0.3
Highland[3]*	115,048	− 40.4	420,759	− 26.8
House of Fabrics	153,299	+ 32.9	493,062	+ 25.3
Lionel[3]*	56,991	− 22.2	148,648	− 28.8
Oshman's[3]*	63,827	− 7.3	202,102	− 8.7
Pier 1 Imports[3]*	158,435	+ 8.7	552,480	+ 27.4
Tandy[2]*	1,467,167	− 1.1	2,519,149	− 1.8
Tiffany*	149,028	+ 5.0	491,906	+ 7.9
Toys "R" Us	2,860,702	+ 12.2	6,124,209	+ 11.1
SUPERMARKETS				
Albertsons	2,198,666	+ 4.0	8,680,467	+ 5.6
American*	5,216,606	− 8.6	20,822,956	− 6.0
A&P[3]	2,607,667	− 0.1	8,851,047	+ 2.7
Bruno's[2]	723,537	+ 1.4	1,339,488	+ 3.0
Delchamps[2]	234,250	− 3.0	468,094	− 5.3
Food Lion	2,022,692	+ 13.0	6,438,507	+ 15.3
Hannaford Bros.	505,878	+ 16.6	2,007,960	+ 19.0
Ingles Markets	260,061	− 0.2	1,044,452	+ 3.7
Kroger*	5,128,649	+ 2.9	21,350,530	+ 5.4
Marsh[3]	267,906	+ 3.9	879,972	+ 3.9
Penn Traffic[3]	672,108	+ 1.1	2,025,273	− 2.6
Quality Food	126,755	+ 11.7	395,151	+ 13.7
Seaway Food Town[1]	135,260	− 0.7	135,260	− 0.7
Smith's Food & Drug	593,482	+ 11.5	2,217,437	+ 9.2
Stop & Shop*	1,321,107	− 5.6	5,009,581	+ 0.4
Vons*	1,239,600	− 1.7	5,350,200	+ 0.3
Weis Markets	333,259	+ 1.5	1,294,332	+ 1.8
Winn Dixie[2]	3,200,000	+ 2.6	5,500,000	+ 2.4
CONVENIENCE STORES				
Casey's General Store[3]	141,300	− 2.5	462,100	+ 4.2
Circle K[2]*	735,427	− 21.2	1,495,369	− 17.8
Dairy Mart[3]	147,608	− 13.1	439,496	− 1.6
National Convenience[2]*	240,851	− 14.9	507,641	− 11.8
Southland[3]	2,150,332	− 4.7	6,162,897	− 2.9
Uni-Marts[1]	71,816	+ 2.5	71,816	+ 2.5
DRUG STORES				
Arbor Drug[2]	124,354	+ 15.9	232,238	+ 16.0
Big B	139,966	+ 2.7	487,890	+ 5.2
Drug Emporium[3]	177,828	+ 16.0	541,482	+ 22.6
Genovese*	116,204	+ 2.7	447,159	+ 3.5
Longs	648,513	− 4.8	2,365,916	+ 1.4
Perry[1]	175,454	+ 6.1	175,454	+ 6.1
Revco[3]*	522,886	+ 11.9	1,425,651	+ 10.2
Rite Aid[3]	929,828	+ 8.3	2,737,900	+ 8.9
Walgreen[1]	1,708,731	+ 10.9	1,708,731	+ 10.9
HOME CENTERS				
Grossman	179,518	− 2.3	806,636	− 0.7
Hechinger	360,970	+ 16.5	1,615,440	+ 15.6
Home Depot	1,298,715	+ 28.9	5,136,674	+ 34.6
Lowe's	709,613	+ 21.1	3,056,247	+ 7.9
Wolohan Lumber	69,920	+ 3.2	303,715	+ 2.8
NON-STORE RETAILERS				
Fingerhut	498,741	+ 3.0	1,428,428	+ 14.5
Home Shopping Network[1]*	291,800	NC	291,800	NC
Lands' End	270,915	+ 18.1	682,863	+ 13.1
Lillian Vernon[3]	66,235	+ 16.1	116,963	+ 3.9
QVC Network*	281,660	+ 12.6	921,804	+ 18.8
Spiegel	652,896	− 8.1	1,733,521	− 2.9

N/A – not applicable because of loss in either current or comparable period
N/C – no change
*before extraordinary items or changes in accounting principles
†continuing operations only

EARNINGS

	4th qtr. (000 omitted)	% change	YTD (000 omitted)	% change
HARD LINES CHAINS				
Best Buy[3]*	2,321	+ 77.6	4,493	+384.2
Blockbuster Entertainment	29,029	+ 37.0	93,681	+ 36.5
Circuit City[3]*	8,799	+247.6	34,185	+ 14.0
Fabri-Centers of America	11,957	+ 36.0	17,513	+ 56.0
Good Guys[1]	4,584	− 7.5	4,584	− 7.5
Hancock Fabrics*	4,903	− 42.1	22,964	− 18.3
Highland[3]*	(3,531)	NA	(20,539)	NA
House of Fabrics	8,346	+ 29.3	19,691	+ 42.4
Lionel[3]*	(9,141)	NA	(41,372)	NA
Oshman's[3]*	(3,286)	NA	(6,316)	NA
Pier 1 Imports[3]*	1,215	NA	18,269	+112.0
Tandy[2]*	78,810	− 20.4	120,643	− 19.8
Tiffany*	12,098	− 19.7	31,805	− 13.2
Toys "R" Us	261,582	+ 10.1	339,529	+ 4.2
SUPERMARKETS				
Albertsons	80,933	+ 9.5	257,794	+ 10.3
American*	58,888	− 31.6	240,168	+ 31.7
A&P[3]	3,916	− 87.8	54,597	− 54.3
Bruno's[2]	17,897	− 3.4	30,708	− 9.5
Delchamps[2]	186	− 94.2	626	− 88.7
Food Lion	60,761	+ 12.5	205,171	+ 18.9
Hannaford Bros.	10,713	+ 23.0	43,350	+ 2.7
Ingles Markets	3,281	− 7.7	10,745	+ 7.0
Kroger*	41,416	− 23.4	100,693	+ 38.5
Marsh[3]	472	− 86.4	7,674	− 29.6
Penn Traffic[3]	(2,962)	NA	(10,529)	NA
Quality Food	6,785	+ 28.0	20,647	+ 30.0
Seaway Food Town[1]	885	+1,743.8	885	+1,743.8
Smith's Food & Drug	11,619	+ 28.8	45,097	+ 31.4
Stop & Shop*	31,100	+ 27.5	32,400	+1,372.7
Vons*	15,000	− 49.5	83,100	+ 1.1
Weis Markets	22,503	− 10.1	80,577	− 7.1
Winn-Dixie[2]	53,800	+ 9.6	80,500	+ 9.5
CONVENIENCE STORES				
Casey's General Store[3]	2,700	+ 8.0	10,200	+ 27.5
Circle K[2]*	9,108	NA	15,493	NA
Dairy Mart[3]	1,616	+ 7.3	3,654	+ 1.1
National Convenience[2]*	(9,008)	NA	(12,113)	NA
Southland[3]	5,837	NA	(40,151)	NA
Uni-Marts[1]	897	− 6.1	897	− 6.1
DRUG STORES				
Arbor Drug[2]	5,101	+ 23.5	8,410	+ 23.8
Big B	3,263	+ 32.9	6,542	NA
Drug Emporium[3]	637	− 54.4	(1,095)	NA
Genovese*	3,287	+ 22.6	7,273	+ 31.9
Longs	15,615	− 9.2	55,379	− 7.1
Perry[1]	2,549	+ 74.8	2,549	+ 74.8
Revco[3]*	13,753	NA	501	NA
Rite Aid[3]	25,326	+ 17.4	79,322	+ 16.1
Walgreen[1]	35,449	+ 10.3	35,449	+ 10.3
HOME CENTERS				
Grossman	(1,376)	NA	(6,496)	NA
Hechinger	(1,500)	NA	26,055	+ 12.0
Home Depot	67,649	+ 63.1	249,150	+ 52.5
Lowe's	(43,265)	NA	6,487	− 90.9
Wolohan Lumber	1,761	− 36.3	9,325	− 21.1
NON-STORE RETAILERS				
Fingerhut	26,958	+ 13.5	53,558	+ 12.2
Home Shopping Network[1]*	13,100	+ 9.2	13,100	+ 9.2
Lands' End	20,364	+ 35.7	28,732	+ 94.9
Lillian Vernon[3]	7,649	+ 31.0	6,271	− 16.2
QVC Network*	9,895	+ 13.8	21,733	NA
Spiegel	12,963	− 64.0	16,921	− 72.5

[1] first quarter figures
[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures
Source: Company reports

RETAIL SALES JUMP AGAIN IN FEBRUARY

STRONG PERFORMANCE RAISES RECOVERY HOPES

Is the long-awaited economic recovery on the way? Many analysts are ready to conclude that it is, based on February's robust retail sales results, which followed on the heels of a strong January performance.

Comparable industry sales posted a 10% year-to-year increase in February, which exceeded January's 9% pace and was the first double-digit industry gain since March 1985, according to Michael P. Niemira, vp of Mitsubishi Bank's New York-based economic research department.

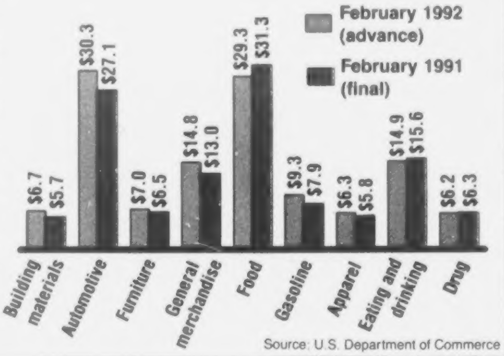
"To be sure, the calendar quirk of the 1992 leap year added to the performance for many retailers," Niemira says. "On the other hand, Sears posted an 8.9% comparable store increase that was not impacted by the extra selling day, a Saturday."

Sears' performance was the best for the retailer in some time, leading the company's chairman, Edward Brennan, to comment, "Something good is going on out there in retail."

Brennan noted that many Sears stores showed a turnaround in the home goods category, which has long been depressed.

FEBRUARY SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	February '92 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$3,610,000	+34.0	+20.0	$3,610,000	+34.0	+20.0
Kmart	2,320,000	+ 9.9	+ 4.3	2,320,000	+ 9.9	+ 4.3
Sears	2,190,000	+ 3.3	+ 8.9	2,190,000	+ 3.3	+ 8.9
Penney	1,014,000	+ 9.0	+ 8.6	1,014,000	+ 9.0	+ 8.6
Dayton Hudson	1,020,000	+12.9	+ 6.0	1,020,000	+12.9	+ 6.0
May	629,300	+ 8.4	+ 4.0	629,300	+ 8.4	+ 4.0
Melville[1]	667,900	+ 5.6	+ 4.0	667,900	+ 5.6	+ 4.0
Walgreen[5]	605,750	+14.1	+10.4	1,200,980	+12.8	+ 8.0
Federated	465,300	+ 3.8	+10.2	465,300	+ 3.8	+10.2
Woolworth	349,000	− 0.7	+ 3.1	349,000	− 0.7	+ 3.1
The Limited	410,000	+14.0	+ 5.0	410,000	+14.0	+ 5.0
Circuit City[2]	205,200	+35.0	+20.0	2,790,000	+18.0	+ 1.0
The Gap	146,000	+23.0	+ 7.0	146,000	+23.0	+ 7.0
Mercantile	153,300	+14.3	+ 0.1	153,300	+14.3	+ 0.1
Neiman-Marcus Group[3]	123,100	+10.4	+ 5.7	1,098,400	+ 2.0	− 2.2
Venture Stores	94,100	+15.3	+10.9	94,100	+15.3	+10.9
Edison Bros.	91,600	+11.7	N/R	91,600	+11.7	N/R
Rose's	108,933	+ 6.0	+ 6.6	108,933	+ 6.0	+ 6.6
Jamesway	44,665	+10.0	+10.0	44,665	+10.0	+10.0
Charming Shoppes	69,200	+22.0	+12.0	69,200	+22.0	+12.0
Ross	53,000	+ 2.0	− 6.0	53,000	+ 2.0	− 6.0
Value City[3]	36,500	+18.2	+13.0	399,800	+17.0	+11.3
Dollar General	49,500	+28.2	+23.3	49,500	+28.2	+23.3
Best Buy[4]	79,000	+76.0	+35.0	929,000	+40.0	+14.0
Gottschalks	17,553	N/C	− 4.0	17,553	N/C	− 4.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R = not reported N/C = no change

Source: Company reports

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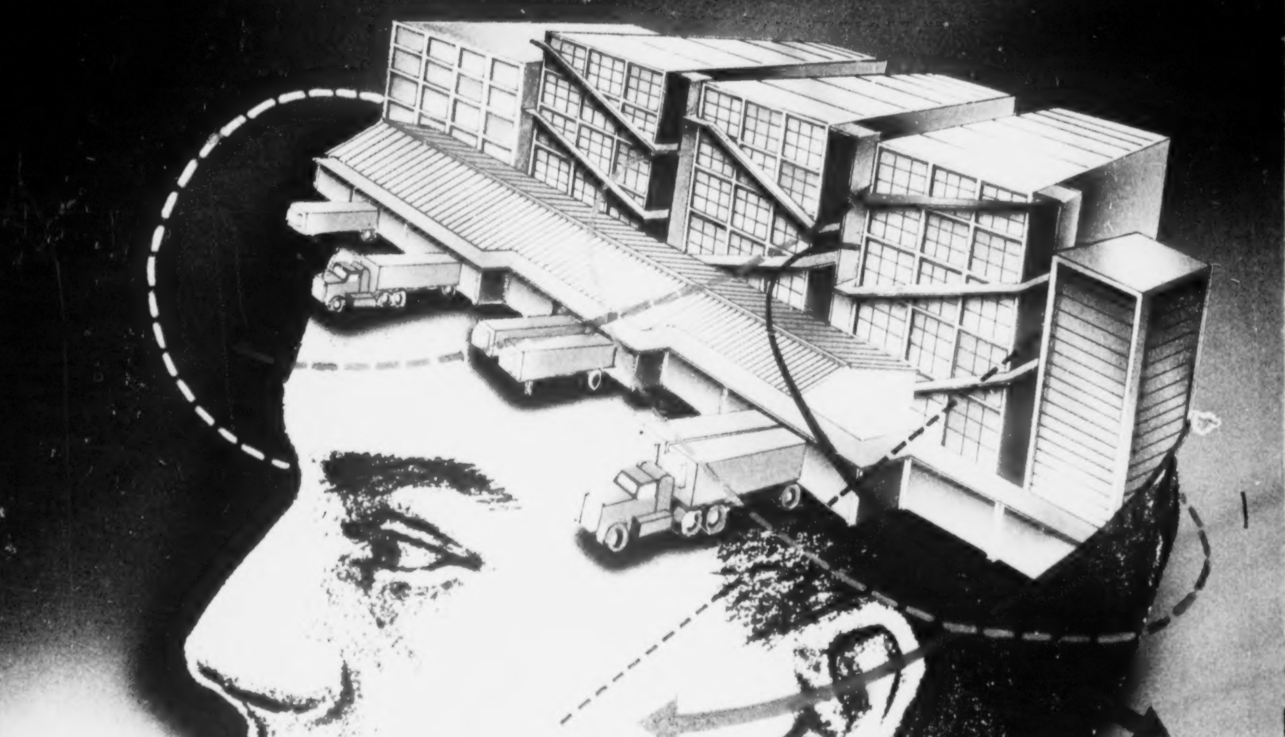
Chain Store Age
EXECUTIVE
APRIL 1992 SECTION TWO

RETAIL DISTRIBUTION AND LOGISTICS

ISSUES OF THE 90s



THE
GARR
CONSULTING
GROUP

2000 YEARS OF COMPETITIVE LOGISTICS

Logistics have been a pivotal factor in military competition for over 2,000 years. Rome's armies conquered North Africa, Europe, and much of Asia in 200 B.C. because their engineers built state-of-the art roads, bridges, and water systems that enabled troops to move far and fast.

Later, Napoleon's armies overran 19th Century Europe with the help of two skilled logisticians: a chief of staff who wrote the first textbook on logistics ("The Practical Art of Moving Armies"), and another Frenchman whose invention of canned foods extended the troops' operating range.

In 1991, a few months of carefully planned and executed distribution and logistics by U.S. forces set the scene for a major war that was won in 100 hours.

In a gentler area of competition, distribution has long played a significant role in a company's support system. Until recently, retailing "distribution" meant warehousing and transportation.

But, a fiercely competitive marketing environment has lead retailers to incorporate logistics into their distribution planning.

Armed with information technology and aggressive management techniques, progressive companies are turning retail distribution into a global process, hard-wired to logistics, in an effort to move merchandise at optimal cost all the way from vendors into stores and onto their counters.

Managers who were responsible for trucks and warehouses are now responsible for satisfying store customers. The data that follow document how this is happening now . . .

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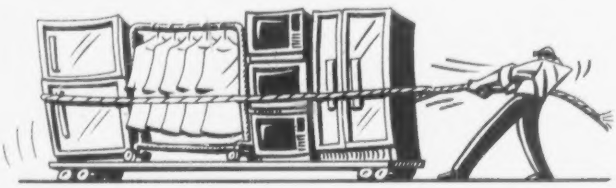
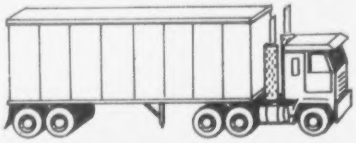




OVERVIEW

Logistics is an increasingly important ingredient in the competitive ferment churning retailing today. This 1992 study of distribution in retail companies across the country documents ways in which logistics activities are expanding the range and profit responsibility of distribution in the industry. Garr Consulting Group, a division of Deloitte & Touche, conducted the survey. *Chain Store Age Executive* is the publisher. Avery Dennison and Exel Logistics are the exclusive advertising sponsors of the report.

The study encompasses two phases. The first is a telephone survey of executives and managers responsible for distribution and logistics in a range of retail companies. The second phase is an in-depth roundtable discussion with executives and consultants involved in distribution and logistics. The study addresses the following:

- **Current State of the Art:** The participants provide us with information on the current state of the art, including their use of distribution centers, the cycle times of merchandise through their organizations, and the use of push vs. pull methods of inventory management.
- **Operating Problems and Opportunities:** They talk to us about their operating problems and opportunities. They discuss how effective their organizations are at managing inventory and integrating it with the company. They also report on how their employees are performing in terms of quality and productivity.
- **Technological Changes:** Managers report on how far they've come in the use of various types of technological advances in inventory control and where they expect to increase their use of technology.
- **Metamorphosis of Distribution:** Our roundtable discussion focuses on where distribution and logistics is heading in the future and what is driving some of those changes.

SURVEY SCOPE

A total of 122 companies participated in this survey. Companies were selected from among the largest organizations in several areas of retailing. They included 24 supermarkets and drug stores, 23 department stores, 18 mass merchandisers (including discount store chains), 22 specialty apparel retailers, 16 home centers or hardware store chains, and 19 other types of retailers, including bookstore chains, greeting card retailers, shoe stores and direct merchandisers.

The companies surveyed had a range of sales revenues. Twenty-three of the companies had 1991 sales under $50 million; 38 from $51 to $200 million; 31 from $200 to $999 million; and 20 had sales of $1 billion or more. In all, the 122 companies accounted for an estimated $105 billion in retail sales.

At each company, we interviewed the person responsible for distribution and logistics. Fifty of those we talked to were vice presidents, 38 were managers of distribution, 20 were directors of operations, four were presidents, and the balance were managers of various areas.

Summary of Companies Interviewed

	Total	Companies
All Companies	**100%**	**122**
TYPE OF RETAILER		
Department stores	19%	23
Mass merchandisers (includes discount retail chains)	15%	18
Specialty apparel retailers	18%	22
Home centers and hardware stores	13%	16
Supermarkets and drug stores	20%	24
Other	15%	19
TOTAL SALES FY 1991		
Under $50 million	19%	23
$51-$20 million	31%	38
$201-$999 million	25%	31
$1 billion plus	16%	20
Not reporting	9%	10
Total estimated sales $105 billion		
POSITION OF RESPONDENT		
President/ceo	3%	4
Vice president	41%	50
Manager of distribution, etc.	31%	38
Director of operators, etc.	16%	20
Controller/treasurer	2%	2
Other	7%	8

1992: A PIVOTAL YEAR?

As retail margins shrink, stores all over America are closing. Retailers who remain and expect to grow find that they have to become more efficient, as more and more retail dollars are being spent for the cost of goods and fewer dollars for the services retailers provide.

The weeding of American retailing, pushed by the recession, can be expected to continue, as competition becomes smarter and tougher. The correction of overstoring creates fertile ground for nimble retailers to grow.

The Garr Consulting Group/*Chain Store Age Executive* study of retail distribution and logistics executives revealed the following key findings:

- Retailers are developing new combinations of distribution methods to custom-fit their operations.
- Distribution centers are shrinking.
- Distribution cycle times are compressing.
- The burden of sku's and coordination with vendors is growing.
- Most retailers now have strategic alliances with vendors.
- Transportation remains distribution's slowest link.
- Retailers employ leading-edge technologies extensively but selectively.
- Eight in 10 retail products are now coded.
- Managers say *they* are distribution's weakest links.
- Managers rate their integration of marketing and inventory functions as "good to excellent."

As retailers learn to manage declining margins, their attention shifts towards the distribution of goods. While distribution practice varies widely, many retailers are now re-examining the way in which they manage their inventories and bring goods from vendors to their stores.

Distribution is the business of the ceo. The highest level of company management must set policy for distribution logistics and participate in its management.

Many retailers believe that distribution logistics has an important impact on both the bottom line and on their store's competitive appeal.

Some retailers are even uncomfortable with the word "distribution" and prefer concepts such as logistics, systems and merchandise flow, which are more appropriate to managing the flow of goods from the vendor to the store shelf.

Retailers are rethinking their distribution and are open to experimenting with new methods. While many maintain a healthy skepticism about how improved distribution can benefit the art of the merchant, almost no one feels comfortable with the status quo. Traditional and time-honored distribution practices are no longer trusted.

Technology is, of course, a powerful agent of change. As previously unavailable information about sales and inventory becomes routinely available, retailers try to exploit this new knowledge about their business. This increase in data is creating new working relationships with vendors that aim at improving in-stock position, shortening time lines, and paring inventories in the store and in the distribution centers. By formulating more significant relationships, new balances are being struck between retailer and vendor in their exposure to inventory risk.

Different retail categories invariably rely on different solutions to the logistics of distribution. Among fashion retailers, the logistics of distribution are profoundly different for the department store which deals with thousands of vendors a few sku's at a time, and specialty apparel chains, which concentrate their sourcing with relatively few vendors who supply more sku's.

At the same time, supermarkets

and drugstores who sell package goods, most of which are purchased frequently, face different problems than electronic superstores, which deal with large ticket items that have relatively low turnover.

Important areas of agreement, however, supersede inherent differences among retailers. The common ground symbolizes what can be described as a new philosophy influencing retailers' approach to distribution. Retailers generally agree that *out of stock is a mortal flaw.* Increasingly, out of stock is seen as a betrayal of trust between the store and the shopper. Lost sales and lost customers from out of stock are not seen as inevitable but as intolerable.

Distribution is the business of the ceo. The highest level of company management must set policy for distribution logistics and participate in its management.

There is a natural synthesis between merchandising and distribution. Increasingly, retailers see an organic relationship between distribution and merchandising. One drives the other.

Detailed on-line knowledge about inventory and merchandise movement is a fundamental source of power. Superior information is seen as the foundation for managing effectively. It is the basis for forming partnerships with vendors, for forecasting inventory requirements, and for controlling elapsed time between the manufacture and sale of product.

Two years of hard times for retailing are making retailers more fervent believers in the need to offset declining margins by improving the distribution of goods. As the shakeout in retailing winds down, we may well look back to 1992 as the year that marked the redesign and rebirth of distribution in America.

PUSH VS. PULL

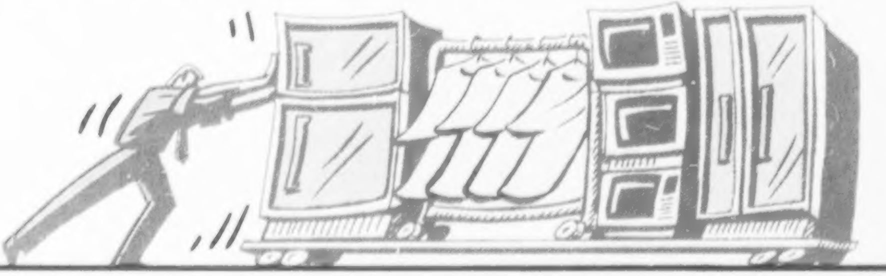
The retailers surveyed utilize a range of inventory management methods. Asked whether their primary inventory method is preallocated ("push") or by order ("pull"), about one-fourth (26%) say they use push and one-half (48%) say pull. One in four companies (26%) uses both push and pull inventory methods.

Specialty apparel retailers are the most likely to use the push methods of inventory control (41%). Supermarket and drug store retailers are at the opposite extreme, with only 8% using push and 79% using the pull method. Department stores stand out for being most likely to use a combination of both pull and push methods (43%).

How Much Push; How Much Pull? The proportion of inventory handling done by either a push or pull method varies widely among individual companies. However, as a group, the mean average percent of inventory handling done with pull methods is 55%, while the mean average by push methods is 45%. Fashion retailers, including department stores and specialty retail apparel stores, move more of their inventory using the push method, while packaged goods retailers tend to use the pull method. Among supermarkets and drug stores, nearly three-fourths (73%) of all merchandise is moved using the pull method.

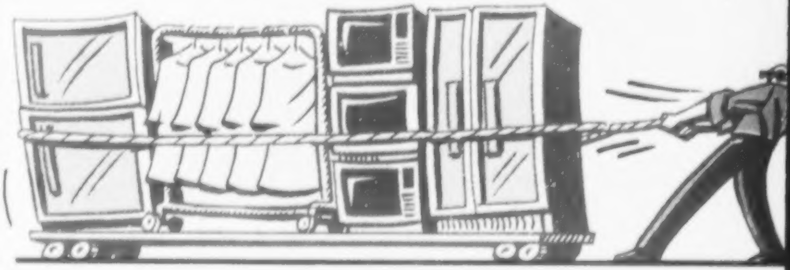
Percent of Retailers Primarily Using Push or Pull Method

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
Push	26%	35%	28%	41%	19%	8%	26%
Pull	48%	22%	56%	41%	50%	79%	42%
Both	26%	43%	16%	18%	31%	13%	32%



Percent of Merchandise Moved Via Push or Pull Method

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
Percent push	45%	60%	45%	52%	43%	27%	43%
Percent pull	55%	40%	55%	48%	57%	73%	57%



THE VARIED WAYS RETAILERS HANDLE DISTRIBUTION

Some distribution methods are like panty hose—they fit practically everybody. At least eight in 10 retailers use distribution centers to store delivery systems (91%); record information at sku or product line level (85%); and gather store input on merchandise selection (79%).

But there are 10 *other* ways for retailers to handle distribution, and a majority use at least one of them to meet their needs . . .

Department stores with their many sku's and low vendor-to-sku ratio, are the heaviest users of basic locker-stocking (78%), on-line planning systems (74%) and Quick Response (83%).

Mass merchandisers are most likely to allow stores' input on merchandising selection (89%), and 83% use vendor-direct-to-store shipping.

Home centers also use vendor-direct-to-store shipping heavily (81%), and are among the heaviest users of in-transit inventory (63%), and vendor certification (56%).

Supermarkets and drug stores are most likely to measure store space productivity by sku or product line (63%). They're relatively heavy users of vendor certification (54%) and vendor-direct-to-store shipments (92%).

Apparel specialty stores, like department stores, make heavy use of Quick Response (59%) and on-line planning (64%). Nine out of 10 (91%) generate information at size or color level. They're the most frequent users of in-transit inventory methods (73%).

Which of The Following Do You Currently Use?

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
Distribution center to stores	91%	96%	100%	86%	88%	92%	84%
Information at the sku or product line level	85%	87%	83%	86%	75%	88%	89%
Store input on merchandise selection	79%	74%	89%	82%	75%	75%	79%
Information at the size or color level	68%	83%	61%	91%	50%	50%	68%
Vendor direct to stores	66%	48%	83%	45%	81%	92%	47%
Identification of like trends across departments	61%	65%	56%	59%	50%	63%	74%
Just in time/quick response	59%	83%	50%	59%	50%	54%	53%
Basic locker stock always on hand	59%	78%	56%	45%	50%	54%	68%
On-line planning system	55%	74%	39%	64%	44%	54%	47%
Measure store space productivity by sku or product line	53%	57%	50%	41%	44%	63%	63%
In-transit inventory	52%	43%	50%	73%	63%	29%	58%
Vendor certification	43%	43%	33%	18%	56%	54%	53%
Reduced network	9%	9%	11%	5%	6%	13%	11%

DISTRIBUTION CENTERS...

David Lynn, distribution vp at McCrory Stores, says, "We've come full circle. Ten years ago you saw people having everything in the distribution center. Now they're trying to move everything direct to the store."

But, hold on. there are still a lot of distribution centers around . . .

Distribution Centers Per Retailer: Our 1992 survey finds 86% of retailers currently with at least one distribution center. Most retailers (52%) have just one center, but 21% of the retailers have three or more.

On average, supermarket and drug stores operate the most distribution centers (2.7), followed closely by department stores (2.6). Specialty apparel retailers, on average, operate the fewest distribution centers (1.0).

Operating Cost: On average, retailers report spending $11 per square foot to operate their distribution centers during 1991. For the smallest companies interviewed, those with sales of under $50 million, the average cost per square foot was highest at $26.5. Retailers achieve economies of scale in their distribution center operations until they reach the $1 billion plus range of sales. For these largest retailers, the average cost per square foot is $12.8, which is higher than the cost for retailers with sales between $201 and $999 million.

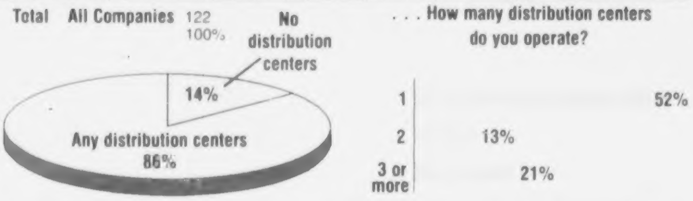
The mass merchandisers we interviewed report running the most cost effective distribution centers with expenses of $3.80 per square foot during 1991. Home centers with expenses of $20 per square foot and specialty apparel retailers with expenses of $17.50 have the most costly centers.

Stores Served: Overall, each distribution center serves an average of 55 stores. Department stores have the lowest store to distribution center ratio, with an average of just 24 stores served by each distribution center. This ratio is nearly one-half that for mass merchandisers who, on average, serve 40 stores with each distribution center. Specialty apparel retailers are at the other extreme with each distribution center serving 78 stores.

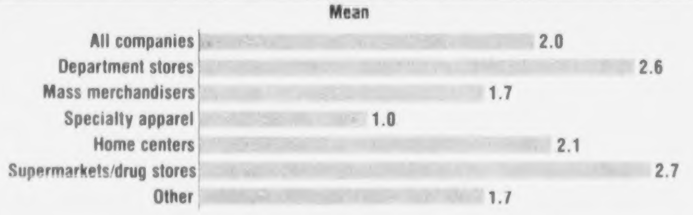
DC Employees: On average, retailers have 256 distribution center employees. The number varies widely by type of retailer. Department stores report the most employees, with 457, followed by supermarkets and drug stores with 330. Specialty apparel retailers have the fewest number with an average of just 90.

On a percentage basis, department stores are the largest employers of part-time DC workers with, on average, more than a third (35%) of the work force hired on a part-time basis. Specialty apparel retailers are the next heaviest users of part-time workers with 27%. Mass merchandisers have the lowest percentage of part-timers (7%).

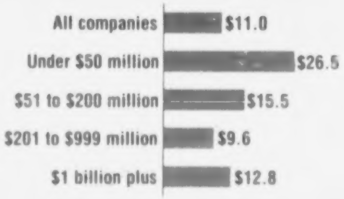
Total Number of Distribution Centers Operated



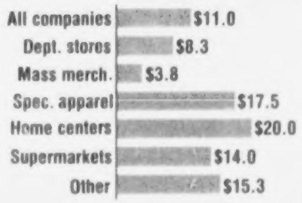
Average Number of Distribution Centers Operated



Expenses Per Square Foot of Distribution Center by Total Sales Revenue



Expenses Per Square Foot of Distribution Center by Type of Retailer



Number of Stores Per Distribution Center

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
All companies	105 100%	22 100%	15 100%	19 100%	14 100%	18 100%	17 100%
1 to 10	16%	23%	20%	11%	7%	17%	18%
11 to 25	25%	55%	33%	11%	21%	11%	12%
26 to 50	18%	14%	27%	11%	21%	22%	18%
51 to 100	14%	—	—	26%	36%	22%	6%
More than 100	27%	9%	20%	42%	14%	28%	47%
Mean	55	25	40	78	56	62	72

Total Number of Warehouse and Distribution Center Employees

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
Mean	256	457	181	90	203	330	213

Percent of Workers Who Are Part-time Employees

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
Mean percent	18	35	7	27	13	10	11

■■■...THE FUTURE

Our survey does find more retailers expecting to cut back on DCs (10%) than to increase them (5%). But the great majority (85%) expect to keep their present number of DCs at least until 1993.

Meanwhile, there's another way to look at information: One in five retailers (20%) plans to shrink its square footage in distribution center space. One in eight (12%) plans to cut more than 100,000 sq. ft. And every company planning such a big cut says it will increase its use of Quick Response delivery.

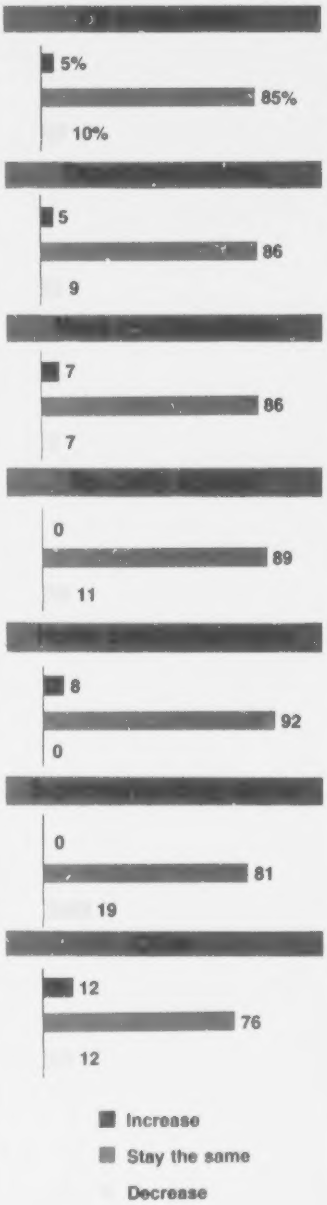
The declining role of distribution centers is also evident when we look at the aggregate sq. ft. in distribution centers. One in four (20%) of the retailers interviewed plan to decrease their square footage in distribution centers by 1993, and 12% plan to close 100,000 sq. ft. or more during that period.

As retailers gain greater control over their inventories, they are able to operate using Quick Response and Just-In-Time methods of replenishment. Under Quick Response, retailers replenish more frequently, but with smaller shipments.

When properly executed, Quick Response allows retailers to maintain or improve their in-stock performance with a smaller amount of inventory. Reduced inventory allows retailers to achieve several economies in their operations. In particular, it allows them to operate with smaller amounts of distribution center space.

In fact, all those planning to close 100,000 sq. ft. or more of distribution center space are also planning to increase their use of Quick Response delivery.

Changes in Number of Distribution Centers by 1993



CYCLE TIMES

Neil Weinstein, formerly vp of distribution of Silo Electronics, says: "The name of the game is speed; there is only one subject: speed."

As pressure increases to get products from the vendor into impatient consumers' hands, cycle times accelerate. Some retailers (16%) report time from vendor to distribution center under four days; most (65%) move goods through the DC within three days. From there, 38% get goods to the store within a day; and most (85%) now have merchandise on sale the day it arrives at the store.

Twelve Days from Vendor: Sixteen percent (16%) of the managers in our survey report cycle time under four days from vendor to the retailer's distribution center. Nearly one-half (45%) report a four to 13 day cycle. The mean average cycle time from vendor to distribution center is 11.5 days.

Seven Days Through the Distribution Center: Most companies (65%) move goods through their distribution center within three days of receipt from vendors. Mean average cycle time among all the companies reporting is 7.0 days.

Three Days to the Store: Nearly four of 10 retailers (38%) move goods from their distribution center to the store within one day. Eight in 10 (82%) have it there within three days. And, the mean average time from distribution center to the store is 2.9 days.

Two Days to the Floor: The fastest cycle of all is that between goods' arrival in store and on the sales floor. In most companies, (85%) it goes on sale the day it arrives at the store. Mean average cycle time between the store door, and sales floor among all companies reporting in our survey is 1.9 days.

Cycle Time From . . . Vendor to Distribution Center

Base: Company Operates Distribution Centers

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
All companies	105 100%	22 100%	15 100%	19 100%	14 100%	18 100%	17 100%
None	—	—	—	—	—	—	—
1 day	3%	5%	—	—	—	—	12%
2-3 days	11%	23%	7%	21%	—	—	12%
4-13 days	40%	55%	33%	26%	29%	50%	41%
14 days or more	35%	5%	53%	42%	64%	33%	29%
Not answering	10%	14%	7%	11%	7%	17%	6%
Mean days	11.5	5.4	13.9	14.3	14.5	14.1	9.0

Cycle Time . . . Through Distribution Center

Base: Company Operates Distribution Centers

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
All companies	105 100%	22 100%	15 100%	19 100%	14 100%	18 100%	17 100%
None	—	—	—	—	—	—	—
1 day	12%	9%	7%	16%	7%	—	35%
2-3 days	47%	73%	33%	63%	50%	11%	41%
4-13 days	16%	9%	27%	21%	21%	11%	12%
14 days or more	16%	5%	27%	—	14%	56%	—
Not answering	9%	5%	7%	—	7%	22%	12%
Mean days	7.0	3.4	8.0	2.9	9.8	18.8	2.8

Cycle Time From . . . Distribution Center to Store

Base: Company Operates Distribution Centers

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
All companies	105 100%	22 100%	15 100%	19 100%	14 100%	18 100%	17 100%
None	—	—	—	—	—	—	—
1 day	34%	50%	33%	26%	14%	44%	29%
2-3 days	40%	27%	27%	53%	71%	39%	29%
4-13 days	13%	5%	20%	21%	7%	—	29%
14 days or more	4%	—	20%	—	—	6%	—
Not answering	9%	18%	—	—	7%	11%	12%
Mean days	2.9	1.7	4.9	2.5	2.4	3.3	3.1

It's easy to see where the most time could be trimmed along the way between vendors and the store's impatient customers.

The Effect of Push Vs. Pull on Cycle Time: Retailers using push inventory management move merchandise more quickly all the way from the vendor to the store sales floor. On average, retailers using the push method save nearly 10 days over the cycle times reported from vendors using the pull method. Those using push average 17.8 days from vendor to sales floor, while those using pull average 27.4 days. The retailers who use a mixture of push and pull fall roughly in between those who use one of the two methods exclusively.

How Different Types of Inventory Management Affect Speed Through Distribution Centers: Retailers are squeezing time in transit out of their distribution centers through a variety of techniques. Retailers using Quick Response and Just-In-Time cut over half a day, on average, from the amount of time merchandise spends in their distribution centers.

The greatest reduction in the duration of inventory in the distribution center is found among those retailers who identify like trends across departments, those who maintain information at the size or color level for various types of products, and those using a reduced network.

The retailers using these methods report that merchandise stays in their distribution centers over 1.5 fewer days than the sample as a whole. Two of the practices examined in our study are actually associated with an increased amount of time spent by merchandise in the distribution center: information at the sku level and vendor certification.

Cycle Time From . . . Store Receipt to Store Sales Floor

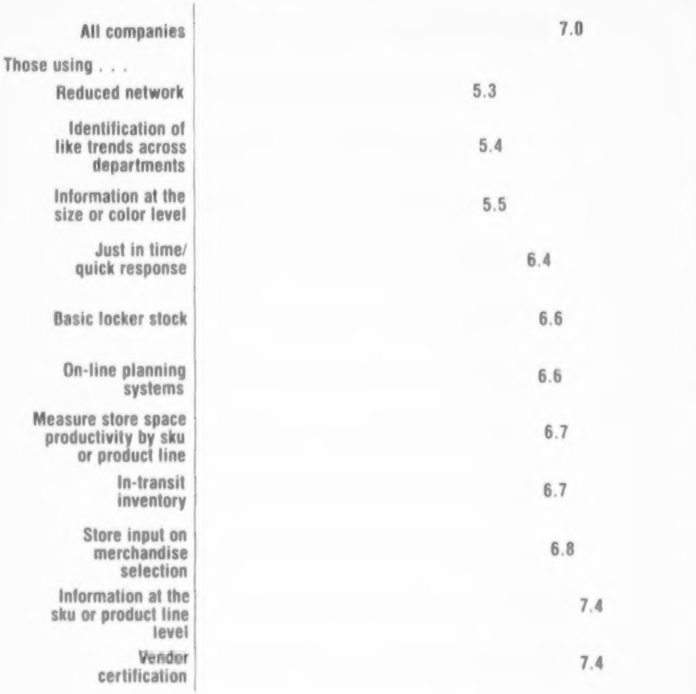
Base: Company Operates Distribution Centers

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
All companies	105 100%	22 100%	15 100%	19 100%	14 100%	18 100%	17 100%
None	—	—	—	—	—	—	—
1 day	57%	50%	53%	79%	43%	50%	65%
2-3 days	7%	5%	13%	5%	7%	6%	6%
4-13 days	2%	—	13%	—	—	—	—
14 days or more	2%	—	13%	—	—	—	—
Not answering	32%	45%	7%	16%	50%	44%	29%
Mean days	1.9	1.1	5.4	1.1	1.1	1.1	1.1

Average Days of Cycle Time by Type of Inventory Method

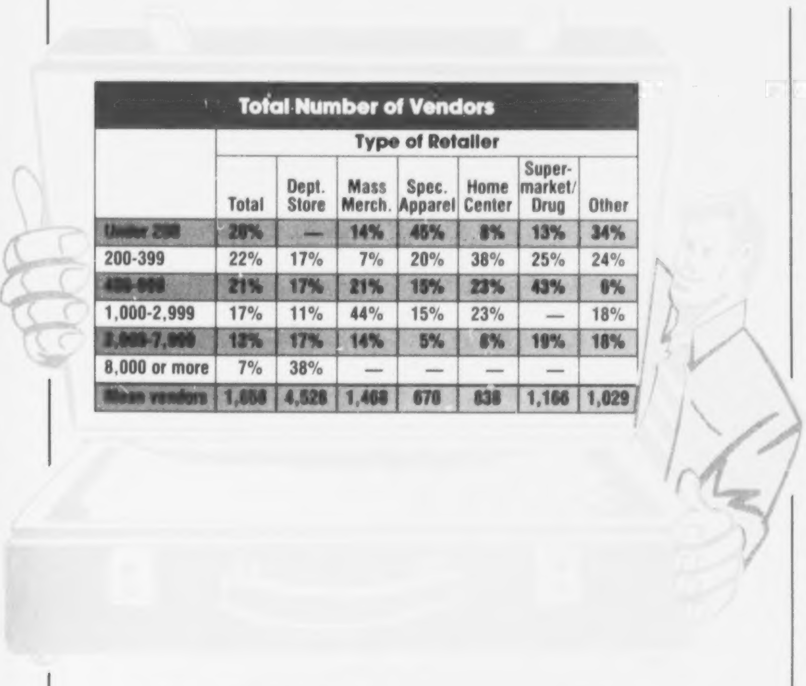
	Push	Pull	Both
Vendor to distribution center	8.6	13.4	11.8
Through distribution center	5.1	8.8	6.1
Distribution center to store	2.9	3.1	2.8
Store receipt to store sales floor	1.2	2.1	2.8
Total time	17.8	27.4	23.5

Average Days Merchandise is Warehoused in Distribution Centers



NUMBERS OF VENDORS

Preticketing of merchandise by vendors lightens the burden of some retailers. That being so, why don't more retailers use preticketing?



Total Number of Vendors

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
Under 200	20%	—	14%	45%	8%	13%	34%
200-399	22%	17%	7%	20%	38%	25%	24%
400-999	21%	17%	21%	15%	23%	43%	6%
1,000-2,999	17%	11%	44%	15%	23%	—	18%
3,000-7,999	13%	17%	14%	5%	8%	19%	18%
8,000 or more	7%	38%	—	—	—	—	
Mean vendors	1,658	4,526	1,408	670	838	1,166	1,029

Average Number of Sku's and Sku's Per Vendor

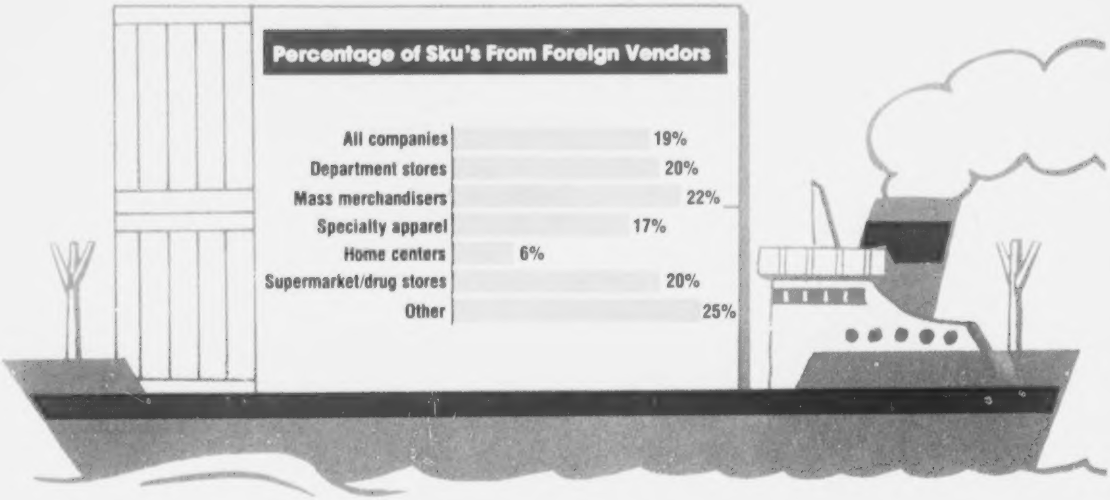
	Total Sku's	Sku's Per Vendor
All companies	36,000	22
Department stores	100,000	22
Mass merchandisers	45,000	31
Specialty apparel	6,000	9
Home centers	30,000	36
Supermarket/drug stores	19,000	16
Other	14,000	14

Vendors Per Company: The mean average number of vendors used by companies in our survey is 1,658. Just 20% use fewer than two hundred vendors. At the other end of the range, 7% of the companies use 8,000 or more vendors.

Department stores have the toughest logistical challenge when it comes to coordinating with vendors. Department stores have by far the largest number of vendors, averaging roughly 4,500, or three times that for the discount and mass merchandisers we interviewed.

SKUs: The department stores' logistical challenge is compounded by the massive number of sku's they carry. With roughly 100,000 sku's, department stores have, on average, more than twice the sku's as the mass merchandisers. Mass merchandisers, including discount stores, have the second largest number of sku's with 45,000.

Despite the large number of sku's carried by the department stores, they have an average number of sku's coming from each vendor (22 sku's/vendor). Home centers (36 sku's/vendor) followed by mass merchandisers (31 sku's/vendor) have the largest number of sku's per vendor. Specialty apparel retailers have the smallest number of sku's per vendor (9 sku's/vendor).

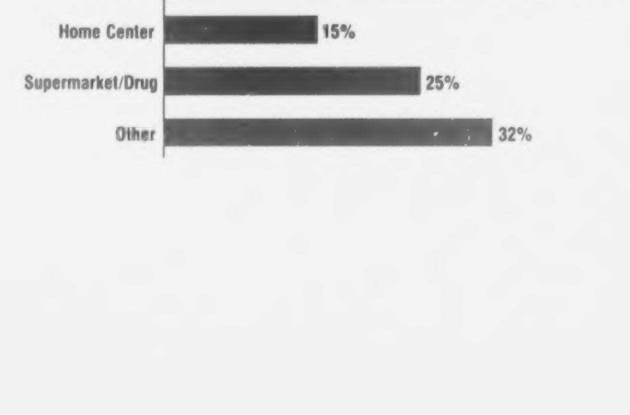


Percentage of Sku's From Foreign Vendors

Foreign vendors: Retailers report that about 20% of sku's are sourced from foreign vendors. This percentage is relatively steady between the different types of retailers, with the exception of home centers which report only 6% of their sku's are sourced outside the United States.

Preticketing by Vendors: On average, one-quarter (25%) of the merchandise arrives preticketed by vendors for use by the retailer. Specialty apparel retailers have gone the furthest in having their merchandises preticketed for them, with an average of 39%, while home centers have the lowest percent, with just 15% of their merchandise preticketed. Department stores and mass merchandisers could conceivably benefit the most from preticketing because they carry the largest number of sku's. These retailers, however, have relatively little preticketing, less than 20%, on average.

Percent of Merchandise That is Preticketed by Vendor



STRATEGIC ALLIANCES WITH VENDORS

Six out of 10 retailers say they've entered into strategic alliances with their vendors. Why? That depends a good deal upon the kind of retailer you are . . .

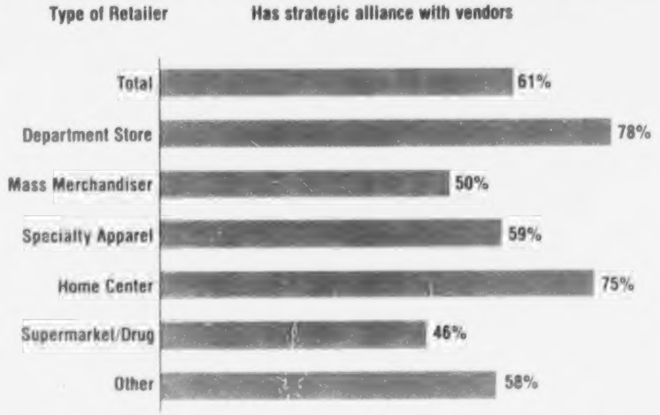
As communications simultaneously become both more complex and vital, and deliveries become increasingly pressing, more retailers and vendors realize that they have to get their heads and acts together. When we asked managers, "Has your company established any strategic alliances with vendors?," 61% said "yes." Department stores and home centers are most likely to have entered into strategic alliances with their vendors.

Alliances Where? Strategic alliances have been tailored to fit the individual needs and problems of retailer and vendor. So, when we asked managers in what areas their alliance has been made, we received a very wide range of answers. In part, the diffuse variety of strategic alliances may reflect the relative infancy of this method of improving inventory management.

Among all retailers, however, EDI/Electronic Data Interchange is an area of vendor alliance mentioned spontaneously by 6% of all companies. One-third (35%) of the department stores mention alliances to strengthen their offerings of fashion clothing and women's apparel. A somewhat smaller percentage (23%) of specialty apparel retailers also mention establishing alliances in the fashion clothing area.

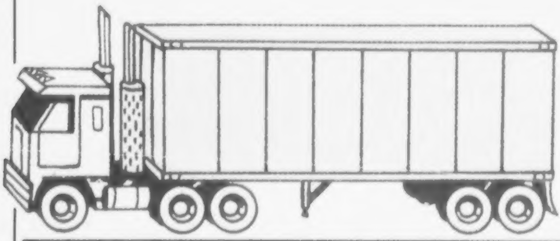
Mass merchandisers' alliances tend to be aimed at strengthening their in-stock performance as most mentioned concerns about replenishment programs or maintaining basic stock items. Mass merchandisers are also following the trend set by department stores and specialty retailers by working with vendors to improve their apparel offerings (6%).

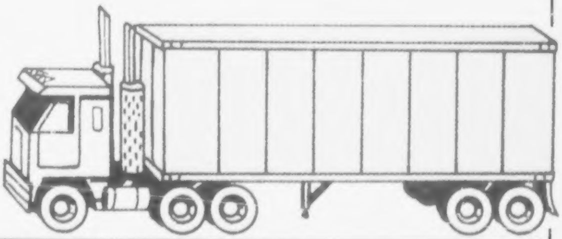
Has Your Company Established Any Strategic Alliances With Vendors?



TRANSPORTATION

The mean average shipment time from vendor to distribution center of 11.5 days is the s-l-o-w-e-s-t link in the whole chain from vendor to consumer. How do the transport methods used by most retailers for their inbound shipments affect this?





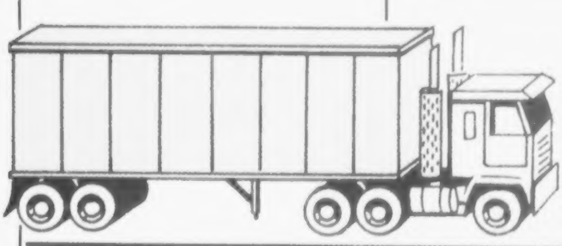
Inbound Transportation: Common carrier by the truckload is the most frequently used form of inbound transportation. The two retail segments most likely to use this type of transport are home centers (93%) and department stores (86%).

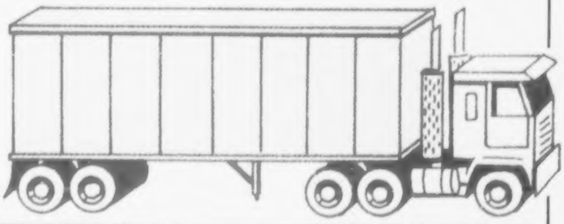
Third-party-dedicated transport is used least often overall, with only 15% naming it as a form of inbound transportation. Discount stores, supermarkets and drug stores are most likely to use third parties for inbound freight.

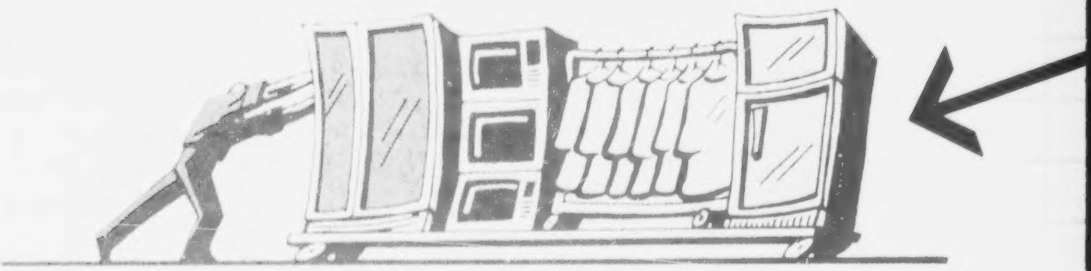
Outbound Transportation: Private fleet is the most often used form of outbound transportation, with over one-half of the retailers (61%) naming it. Supermarkets and drug store chains use private fleet most often for outbound shipments (78%); specialty apparel stores and mass merchandisers least often (53%).

Transport Used Inbound and Outbound From Distribution Center

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
Private Fleet:							
Inbound	30%	14%	40%	32%	36%	44%	18%
Outbound	61%	59%	53%	53%	64%	78%	59%
Common Carrier (less than a truckload):							
Inbound	67%	50%	53%	79%	79%	61%	82%
Outbound	23%	9%	7%	26%	36%	6%	59%
Common Carrier (full truckload):							
Inbound	71%	86%	40%	58%	93%	67%	82%
Outbound	23%	9%	27%	32%	29%	11%	35%
Contract Carrier:							
Inbound	38%	23%	40%	42%	50%	39%	41%
Outbound	26%	32%	33%	11%	50%	22%	12%
Third Party Dedicated:							
Inbound	15%	5%	20%	11%	7%	33%	18%
Outbound	9%	9%	7%	—	—	6%	29%







MANAGERS RATE THEIR ORGANIZATION

The weakest link in the logistic and distribution system is in the executive suite. Who says so? Managers. They rate their current performance lower than that of the distribution center's floor workers.

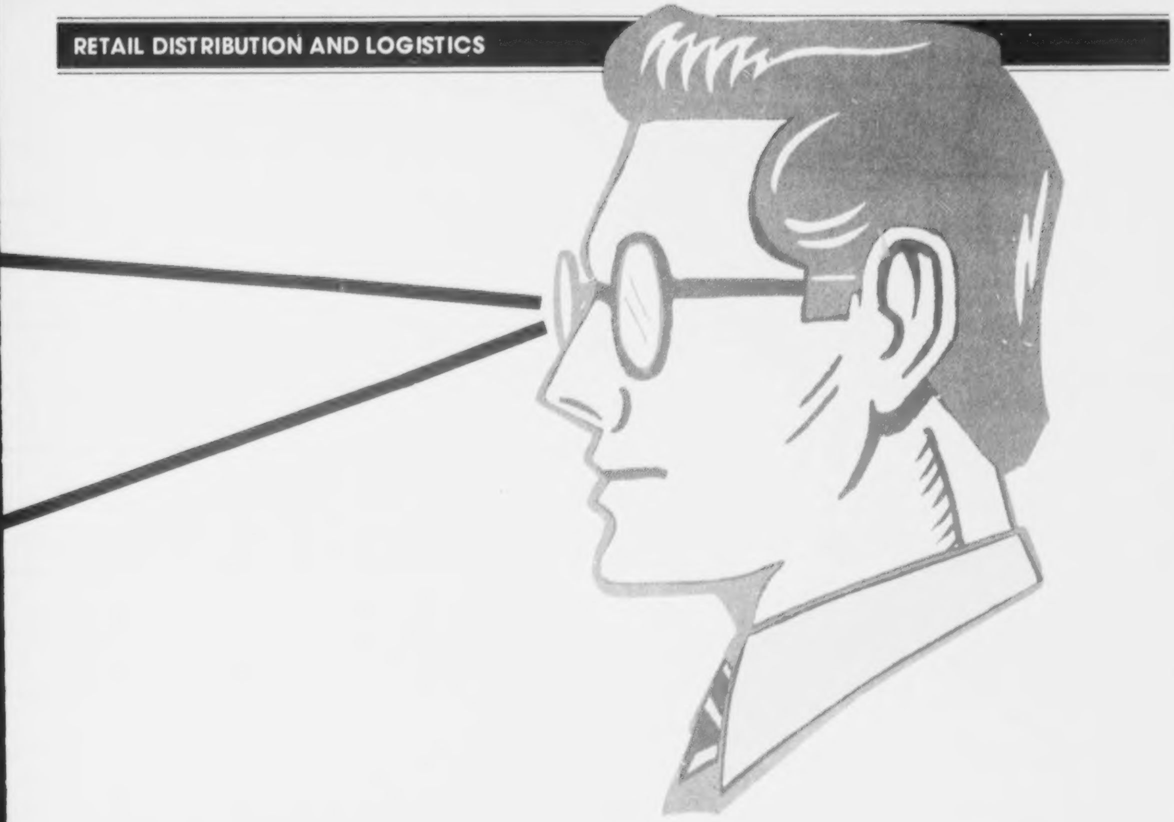
Of the four areas critiqued by managers, the lowest rated are "integration of logistics and marketing" and "effectiveness of inventory management." The two highest rated areas are the "productivity" and the "quality" of the work done by distribution employees.

Participants were asked to rate their organizations' current performance in these areas using a nine-point scale, where nine means "excellent" and one means "not good."

Integration of Logistics and Marketing: About one in 13 managers (7%) rates the integration of marketing and inventory functions in his company excellent. Over one-half (51%) rate theirs good/pretty good. Home centers (13%) and supermarkets and drug stores (17%) are most likely to rate the integration of marketing and inventory functions as excellent. Mass merchandisers feel they have the longest way to go towards integration, with 50% rating their efforts in this area as good and none rating it excellent.

Managers Rate Their Organization

	Integration of Logistics and Marketing	Effectiveness of Inventory Management	Productivity of Distribution Employees	Quality of Work by Distribution Employees
(9) Excellent	7%	7%	9%	7%
(7-8) Good	51%	51%	69%	76%
(7-9) Net	58%	58%	78%	83%



Integration of Marketing and Inventory Functions

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
(9) Excellent	7%	—	—	5%	13%	17%	11%
(7-8) Good	51%	61%	50%	59%	50%	42%	42%
(7-9) Net	58%	61%	50%	64%	63%	59%	53%

Strengths in Integration: When we ask managers to tell us the strengths their company has in coordinating marketing needs with logistics and inventory management, a number of managers speak about technology's contributions to integrating operations. Specifically, they cite the use of computers, EDI, MIS and POS equipment. But, the positive factors mentioned most often involve human effort and cooperation. One in four managers spontaneously mentions daily communication and cooperation to improve coordination between logistics and marketing. Examples of answers in response to the following question illustrate managers' thinking on the subject.

"What are some of the strengths your company has in integrating marketing needs with logistics and inventory management?"

"We have an order in the box before we manufacture the product [on the bulk stuff]. It's on the road in two hours. We're very flexible; we can make orders on demand."

"The strength basically involves our MIS system. We get information quickly and can move merchandise on a dime."

"The traffic department works closely with the merchants to get freight in. The buyer goes directly to transportation to get goods in the most efficient way."

"The new system will make the buyer aware of what goods are in the store and in the warehouse. We will have an exact count of goods."

"There is good verbal communication. When there are problems, people get on the line immediately to solve them."

"Our current computer system allows information to be distributed equally to all departments."

"We develop transportation needs around marketing and competitive needs of the organization and prioritize transportation around those needs. Some high fashion items require special handling and we address those special needs."

Weaknesses in Integration: Managers mention over 20 different obstacles to integrating sales and inventory operations. Most frequently mentioned are "Late shipments by vendor/obtaining goods . . ." (mentioned by 14%); "Sometimes we don't talk to each other enough . . . the different departments" (7%); and "Accurate predictions on sales demands/no patterns to sales . . ." (6%).

Examples of other obstacles include:

"What are some of the obstacles in integrating marketing needs

with logistics and inventory management?"

"The biggest obstacle today is the government. We spent untold hours trying to fill out reports."

"The only thing is geography. We have stores in Los Angeles and in the East. It takes longer to get merchandise there."

"There are not enough people to do what needs to be done in data processing."

"The store managers don't like staff people interfering in their store, checking their merchandising."

"We've operated for 45 years without a computer system. The buyers are used to buying what they want, and it may be difficult for them to accept the new system."

"Seasonal merchandise is an obstacle because some companies oversell, and we don't get our stock. The reps will say they have the merchandise; we order it, and then don't get it."

"We do not have a good replenishment system. We overbuy and get untimely purchases. We lack good forecasting."

"Manufacturers are not shipping what you order. That won't change."

"An obstacle is breaking down barriers from employees about new technology. There is a lack of follow-up to be sure they understand the new systems."

"Saturated space. Too many companies tried to get their share of it, and someone had to give."

Effectiveness of Inventory Management: When we ask managers to rate their inventory operation on a sliding scale from nine to one, only one in 13 (7%) rate theirs excellent, and about one-half (51%) rate their performance in this area as good or very good.

Faced with the largest logistical challenge, department stores, as a group, rate the effectiveness of their inventory management lower than did the other kinds of retailers interviewed. At the other extreme, specialty apparel retailers, with a relatively simple logistical task, rate their effectiveness comparatively high.

Current Strengths: When they consider what strengths their company now has in its inventory management program, the strengths mentioned most often by managers in our survey are: Accurate Inventory Records (22%); Technology/Automation (15%); Have a Good System (9%); and Management Commitment (8%).

Examples include:

"What are the strengths of your inventory management program?"

"We know exactly what was sold yesterday and can replace it immediately."

"We are strong at keeping the lid on what's coming in. If we're overstocked we cut off incoming stock."

"We have barcoded tickets."

"Our loss prevention program in-store . . . better precautions against theft, monitoring systems and employee awareness."

"We keep good records."

"Automation—it speaks for itself."

"We offer our customer better selection than an average discount store."

"We have flexibility. We are able to get goods fast and get them out to our stores quickly."

"Individuals selectively make contributions to the management process."

Current Obstacles: The two obstacles to their inventory management program mentioned most often by managers both have to do with technology: "System doesn't give exact/correct/accurate information" (mentioned by 9%), and "Lack of Automation" (8%).

"What are the obstacles to your inventory management program?"

"There has been a reduction in management in all stores. There is less scrutiny due to cutbacks."

"The fact that forecasting consumer buying is not an exact science."

"There are no checks and balances. If a mistake occurs, it's very hard to find it."

"Coordination and communication of the people involved."

"Just training how to use the systems."

"Employee theft."

"Forecasting accuracy at the times of the year when we have unique business like a new product line."

"Down time caused by when the phone system is out."

"We have a large database of items to manage."

"Not being totally computerized."

"There's a lack of systems. It's not state of the art."

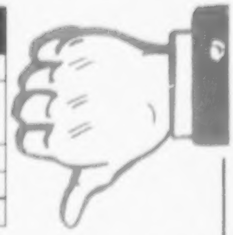
Distribution Employee Productivity: When we ask managers to rate the productivity of their employees on a scale from nine meaning "excellent" to one meaning "not good," only 9% rate their employees' productivity excellent. However, a substantial ma-

Effectiveness In Inventory Management

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
(9) Excellent	7%	4%	—	18%	—	13%	5%
(7-8) Good	51%	39%	61%	55%	56%	46%	53%
(7-9) Net	58%	43%	61%	73%	59%	59%	58%

Productivity of Employees

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
(9) Excellent	9%	13%	6%	9%	13%	8%	5%
(7-8) Good	69%	61%	78%	73%	56%	71%	74%
(7-9) Net	78%	74%	84%	82%	69%	79%	79%



jority (69%) rate their employee productivity at eight or seven, a "very good" to "good" level.

Home Centers trail stores as a whole on the perceived productivity of their distribution employees, while mass merchandisers and specialty apparel retailer rate themselves higher on this measure than other retailers.

Although home centers and department stores trail retailers overall, more give excellent ratings to their distribution employees' productivity. These two types of retail categories thus display more variation in their performance than other retailers.

What Are Their Strengths? Managers name over 20 different factors they believe strengthen their employees' productivity. The five mentioned most frequently are loyalty (named by 19% of managers), incentive (14%), supervision (12%), training and tools (10%) and work standards/ethics (10%). These and other factors are expressed as follows:

"What are the strengths leading to the productivity of your employees?"

"Everyone is compensated on productivity on a base plus system."

"You make as much as you produce."

"We're looking at improving incentive programs and introducing engineered programs to increase productivity."

"We hired a consultant that's created an engineered standard. Each employee is measured against a standard and paid a bonus for productivity over 100%."

"Organization. We have to run efficiently because we're a small business."

"They're dedicated to the operations. They're willing to make suggestions and trust in management directions."

"We use an in-house incentive program."

"Exposure from top brass to bottom. We get together and huddle, there's a game plan . . . team work."

"They have a clear goal of what's expected of them, and they receive good training and direction on how to attain their goals."

"They are conscientious and loyal to the company because of the benefits we offer."

"Constantly being busy! Enough work for everyone!"

"Dedicated people and longevity, the average service is in excess of 10 years."

"Well-defined computer systems. Good training which is consistently applied and productivity measurements."

"Everyone knows everyone else's job, cross-training."

"We have measured work standards that have to be followed."

"Extensive training. Very committed effort by our management. Realistic goals. Time and monitoring."

"Having one vendor, knowing the product and popular prices."

"We have good workers with a good work ethic. Most are from working families. They know that they have to work for a living; nobody's going to give it to them."

"Paying a lot of attention to incentive pay and cross-training is a given because of peak and valley times."

Obstacles to Productivity: Managers also cite numerous obstacles to productivity of their employees. Most frequent are obsolescence in machinery (mentioned by 7%), employee absence (7%) and late delivery of merchandise/out of stock (5%).

"What are the obstacles to the productivity of your employees?"

"Inconsistency of vendor packaging [sizes and prepacks]."

"The pressure to be productive can hurt employees that have trouble performing at 100%."

"Sometimes we get flooded with merchandise they can't handle."

"We have a more traditional work force, e.g., job titles, older ways of managing it, like requiring eight hour days. We're slowly changing."

"Poor management in place. We are not drawing good employees because of our rate of pay and location."

"The flow of merchandise into the warehouse has too many peaks and lows."

"We don't pay an incentive; you might get higher productivity if you did."

"People get too friendly and lose track of the business issues of the job."

"There is a lack of communication between markets, purchasing and distribution. It's hard to keep employees motivated when we have a week of nothing, and then a week of chaos, with orders all coming in the same day."

"The archaic systems. Everyone is using computers and we're still

Quality of The Work Performed by Employees

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
(9) Excellent	7%	4%	—	9%	13%	4%	11%
(7-8) Good	76%	83%	78%	77%	69%	83%	63%
(7-9) Net	83%	87%	78%	86%	82%	87%	74%

using paper for record keeping."

"They are unionized."

"The distance from your store to the warehouses. A lack of the company's own vehicles . . . we must rely on outside carriers."

"To achieve the goal that is in labor standards."

"A relatively high turnover. People are looking for full-time employment; they need more security than we can offer."

"Lazy people. Laziness or carelessness as in mis-ticketing merchandise."

"We are large, spread out over 22 states which creates supervisory problems."

The Quality of Distribution Employees' Work: When managers in our survey rate the quality of work done by their employees, using a sliding scale from nine ("excellent") to one ("not good"), nearly all (83%) rate the quality of their work as good or better.

Ratings do not vary substantially for the different types of retail categories. Mass merchandisers, however, tend to rate the quality of the work performed by their distribution employees somewhat lower than do the other types of retailers.

Strengths of Quality: Managers name almost 30 different strengths that make for quality in their employees' work. Mentioned most often are: loyalty/dedication/caring (mentioned by 27%), accuracy (13%) and quality checks/quality control (10%).

"What are the strengths of the quality of work performed by your employees?"

"Our production system has a quality control program where errors affect your incentive pay."

"We have pretty good supervision. They seem to be pretty well organized, and they know what's to be done that day."

"We have constant training on procedures."

"Commitment to the company is very high. We have a lot of dedicated employees. Productivity is high. We equip them well to do their jobs."

"Our representatives know who they are working for and care about the company and their customers."

"The ability to meet the pre-established labor standards: to receive the product, store it, select it and ship it in a reasonable time. Twenty-four hour turnaround is reasonable."

"We are privately owned and know the employees very well. We're friends so we interact together."

"We have good internal training so paperwork gets filled out properly, and it gets sent to the right person and things are followed up on appropriately."

"We all work together. The owner pitches in and we are a close knit firm. We all pitch in to help get the job done."

"The accuracy and prevention of damaged goods. Most of our employees are long term, some 30 to 40 years."

Obstacles to Quality: The three obstacles to quality in the work of their employees, mentioned most often by retail managers, are human error (mentioned by 7%), lack of training (7%), and need for automation (7%).

"What are the obstacles to the quality of work performed by your employees?"

"Poor documentation from vendors [discrepancies between purchase orders and vendor paperwork]."

"When there's an uneven flow of merchandise, then there is a push to get it out and a greater chance of error."

"There is a lack of training and inadequate training. People find shortcuts that lead to errors."

"Wasted time."

"We could use some technical upgrades to improve reliability and accuracy."

"Boredom is the biggest obstacle, and union work rules."

"Coffee time, personal calls, and how they spend company time."

"Employee turnover."

"Human error. We make mistakes like everyone else does."

"Equipment and systems are not modern which causes more handling and more risk of error with the goods."

"Communications . . . changes not getting through to the employees."

LEADING-EDGE TECHNOLOGIES

"Scanning, EDI, Barcoding, RF, Quick Response, and Just-In-Time are devices that will really make life much better," says Dan Seeley, executive vp of Garr Consulting Group.

"The more accurate our information becomes, the easier our job gets. Used properly, they can assure the accuracy of regular inventory information. That's the *key* resource for doing anticipation, and to control the sold goods," according to Seeley.

Which Are Leading? Barcoding is being used by two out of three (66%) of the logistics managers surveyed.

EDI (Electronic Data Interchange) (61%) and Scanning (58%) are used by three out of five companies. And, RF (Radio Frequency) is used by 26%.

Department stores, as a group, have invested more heavily in leading-edge technologies than other retailers. Investment among other retailers is more selective. Specialty apparel stores have made relatively heavy investments in scanning (64%). Supermarkets and drug stores have invested most often in RF/Radio Frequency (46%) and also have invested heavily in EDI/Electronic Data Interchange (63%).

Which Barcoding Standards? When we ask managers "What Barcode standards do you currently use within your operation?" UPC is named by 89%, CODE 128 by 13%, "Our Own" by 8% and others tag behind.

How Much Is Coded? Managers whose companies are using barcoding report that a mean percentage of 79% of their products are currently being barcoded.

With that level of utilization by two out of three major marketers, it's little wonder that consumers now see and recognize barcoding everywhere, even as an art motif on T-shirts.

Specialty apparel retailers have gone the farthest in barcoding merchandise. Those who use it report that 94% of all their merchandise is barcoded.

Leading-edge Technologies Currently Being Used

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Supermarket/ Drug	Other
Barcoding	66%	87%	61%	59%	63%	54%	68%
EDI (electronic data interchange)	61%	78%	61%	55%	38%	63%	63%
Scanning	58%	87%	39%	64%	38%	54%	58%
RF (radio frequency)	26%	35%	11%	5%	38%	46%	21%

Barcode Standards Currently Used

Base: All Who Are Currently Using Barcoding

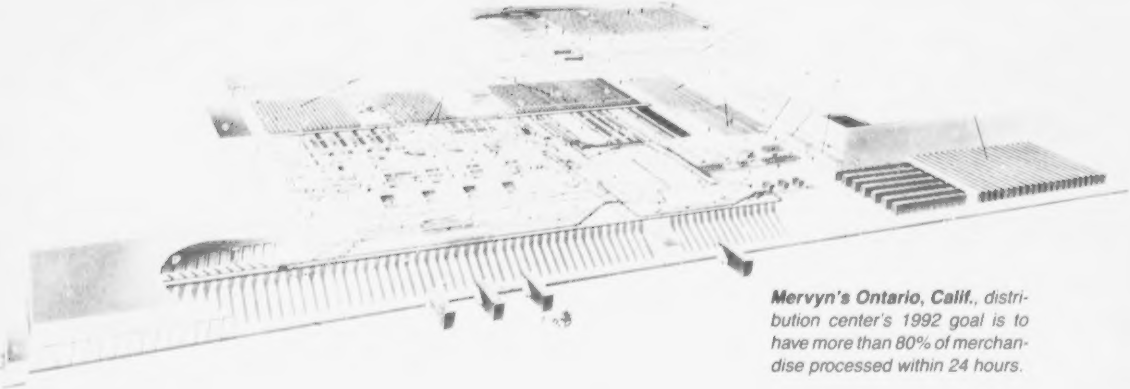
	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Supermarket/ Drug	Other
Barcodes standards: (net)	100%	100%	100%	100%	100%	100%	100%
UPC	89%	89%	100%	67%	100%	100%	75%
Code 128	13%	28%	—	22%	—	10%	—
Our own	8%	11%	—	11%	—	—	25%
Code 39	6%	11%	—	22%	—	—	—
EAN	2%	—	13%	—	—	—	—
Interleaved two or five	2%	—	—	11%	—	—	—
Other	2%	—	—	—	11%	—	—

Percentage of Products Being Barcoded

(Base: Those Using Barcodes)

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Supermarket/ Drug	Other
Mean percent	79%	70%	87%	94%	78%	84%	65%

MERVYN'S CUTS DC TIME



Mervyn's Ontario, Calif., *distribution center's 1992 goal is to have more than 80% of merchandise processed within 24 hours.*

In 1986 Mervyn's Ontario, Calif., distribution center was struggling to move merchandise through its seven-year-old facility within five days.

By 1989 it had reduced the throughput time to three days and today, following an aggressive expansion project, the 1992 goal is to have more than 80% of merchandise processed within 24 hours. Mervyn's has positioned itself on the leading edge of retail distribution technology throughout its logistics process.

Mervyn's, the $4 billion division of Dayton Hudson, is a moderate priced soft lines department store headquartered in Hayward, Calif. The company has 233 stores with 100 stores in California.

In 1989, the decision was made to expand and update the distribution system. Mervyn's relied heavily on the expertise of its MIS management and staff to take an aging distribution facility, the Ontario Distribution Center (ODC) with capacity for 1 million units, and turn it into a state-of-the-art distribution center with almost twice the capacity. The MIS team included Teri Katen, Dana Reed, John Irwin, Nick Lenhart, Maria Concepcion and Way Jane Gong.

More than 90% of *goods arrive preticketed at the center.*

> **'We strove to speed merchandise through the logistics pipeline to our stores.'**

"We wanted to develop a rapid communication link between Mervyn's and our vendors, we wanted to move information more quickly to the right people to allow better decisions to be made, and finally we strove to speed merchandise through the logistics pipeline to our stores," explains Dennis Green, vp of operations.

Green's team included Mike Londellus, director of ODC, Don Lyons, project manager, Bruce Fedder, director of operations, and divisional managers Bill Meyer, Barbara Klipper and Ron Perkuchin.

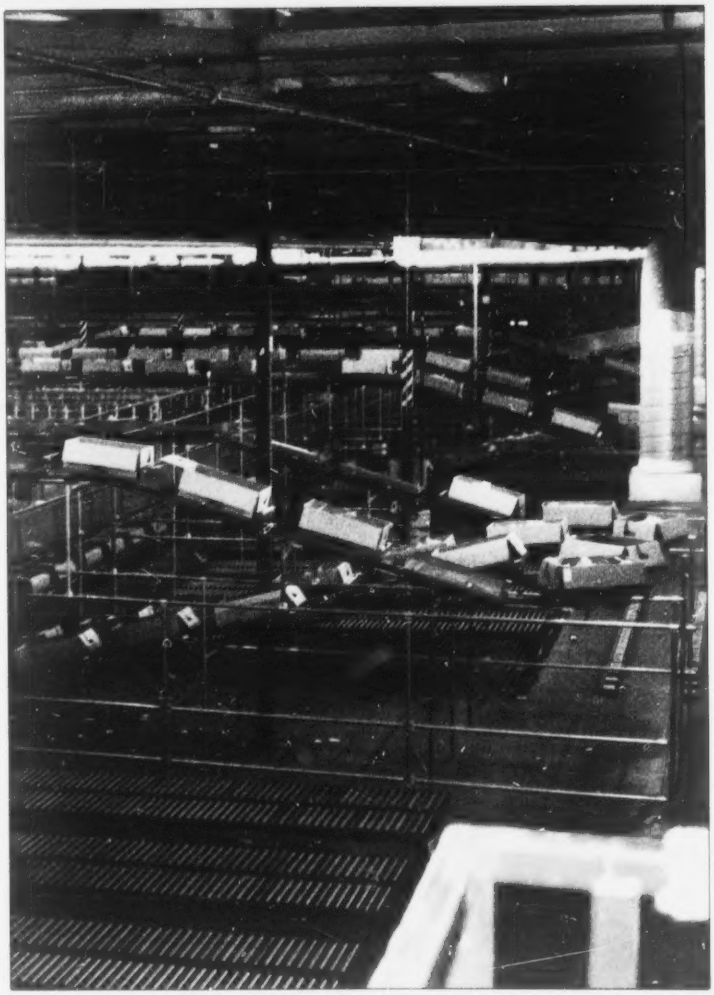
Mervyn's was successful in its endeavor to update its logistics operations primarily because it realized the need to invest in equipment, systems and in people.

"At Mervyn's we emphasize a player, coach concept in the management of our people," says Klipper.

Mervyn's commitment to improvement is demonstrated in its Constant Quality Improvement (CQI) concept. Coaches and players understand their goals and work hand in hand to accomplish the goals.

In addition, Green says that Mervyn's believes in a one-company philosophy. "Stores and Operations [distribution] work together as a team. Distribution works hard to service its customer, the store. We must always ensure that distribution is adding value to our customer, the store."

The team followed a well-defined process to take their company to the leading edge of retail



Mervyn's doubled the capacity *of its Ontario DC to nearly 2 million units.*

technology.

The initial focus was on developing vendor partnerships. Mervyn's worked with its vendors to ensure that merchandise arrived at the distribution center in floor ready condition.

"Floor ready means that each item is ticketed with the price, size and care instructions, and has a hanger that is acceptable for the sales floor. Over 1,000 of our vendors ship floor ready merchandise which can speed through the distribution center," says Green.

Londellus emphasizes the point, noting, "We eliminate staging and manual handling processes which helps us to achieve our goal of shortening the service window."

In 1989, 70% of merchandise was preticketed. Today, more than 90% arrives at the distribution center floor ready for sale.

Even more dramatic was the change in hanging garments. In 1989 Mervyn's placed its own hangers on all garments. In 1991, 93% of all hanging garments arrived at the store with acceptable hangers.

Surprisingly, the transition to floor ready receipts was not as difficult as Mervyn's initially expected. Mervyn's established a vendor compliance program, and in the case of hanging merchandise Mervyn's provided "spec" hangers to vendors up front.

Mervyn's is continuing to further strengthen its relationships with its vendors. Together they will push technology to work effectively for the partnership.

Mervyn's made a significant investment in technology to take its distribution system to the state of the art as it is today.

In receiving and shipping, Mervyn's is using barcode labels and scanners to route merchandise according to the merchandise's processing requirements. There are no fork lifts operating in the receiving or shipping areas of the distribution center.

Mervyn's has negotiated favorable agreements with its shipping partners that include trucking contracts, sku separation, freight consolidation and backhaul concepts.

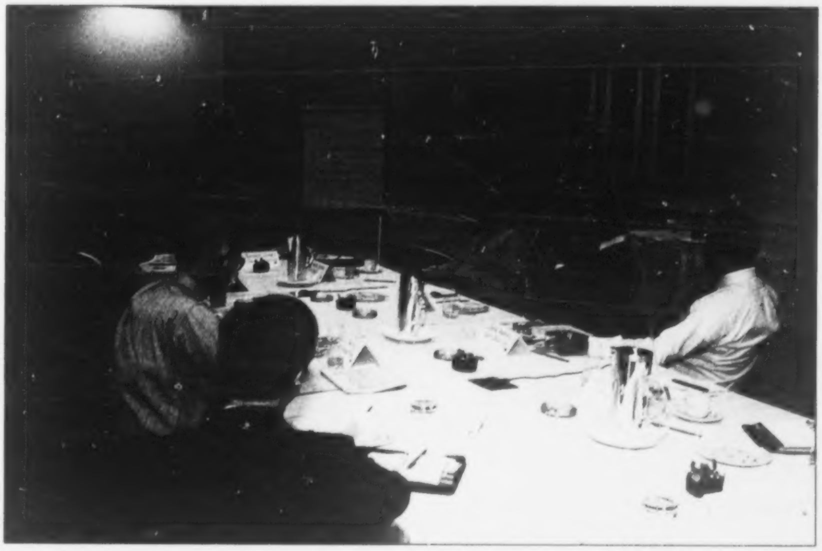
When merchandise is ready for shipment, cartons are scanned as they enter the appropriate truck and a manifest is automatically generated. At the store, the merchandise is unloaded and flows directly to the sales floor, bypassing the time-consuming detailed receiving process.

Mervyn's Warehouse Management System (WMS) allows the distribution center to track the flow of merchandise real-time, and to allow for greater control of the reserve stock area.

"The Warehouse Management System will act as a fuel gauge, allowing us to monitor activity and merchandise flow by area," explains Klipper.

Mervyn's is rapidly expanding its use of Electronic Data Interchange and Automatic Shipping Notice technology. It has 1,000 vendors on EDI and is paving the way toward a paperless environment with 65 vendors using ASN. It is putting more vendors on ASN, electronic mail and electronic invoicing.

LOGISTICS: A ROUNDTABLE DISCUSSION



Seated, clockwise from bottom, Charles Yanak, *Dan Seeley, Neil Weinstein, David Lynn, Robert Lane, Dennis Green, Ed Mangiafico, Charlie Armstrong. Not shown, Murray Forseter and Kevin Young.*

Through the 1990s you are going to see a trend to quicker response. You need better data integrity, better forecasting, and the ability to process in entirely different time frames, and manage the whole flow process.

ISSUES
DEFINE LOGISTICS
EDT/VENDOR
QUICK RESPONSE
ORGANIZATION
PUSH OR PULL
REPLENISHMENT
MDSE/ASST REVIEW

Robert Lane, standing, executive *vp of Garr Consulting, and Dennis Green, vp operations of Mervyn's.*

Participants in our informal roundtable discussion were Dan Seeley, executive vp, and Charlie Armstrong, vp, Garr Consulting; Dennis Green, operations vp, Mervyn's; Ed Mangiafico, retired chairman, May, Calif.; David Lynn, senior vp, distribution services, McCrory Stores; Neil Weinstein, formerly vp, distribution, Silo Electronics; Kevin Young and Charles Yanak, senior marketing managers, Avery Dennison; Murray Forseter, associate publisher/editor, Chain Store Age Executive. *Robert Lane, executive vp, Garr Consulting Group, moderated the discussion.*

Robert Lane: The role of retail distribution used to be basically getting merchandise to the store . . . trucks, warehouses and paperwork. What is the role of retail distribution today?

Dennis Green: Distribution is no longer just the distribution center. It's also fixturing the store, placement of sku's on the fixture and the distribution channel all the way back to the vendor.

Ed Mangiafico: The word distribution is really a misnomer. It is really the system and administration flow.

Dan Seeley: Right. And that job is being called logistics. It's at a reporting level and importance level with merchandising and stores.

Robert Lane: What is driving the transformation of distribution?

Dennis Green: The consumer choice is between retailer not between products. It's how well you execute in getting the product to them. That is how you distinguish yourself in the marketplace today.

David Lynn: What's driving change is that retailers are dropping gross margin and to manage with lower margins they are forced to reduce their inventory.

Ed Mangiafico: The increasing size of retailer organizations is driving the changes in logistics; it increases cost exponentially. It's the number of stores and the distances that occur with the increased size of retail organizations. Also, in-stock service level has become much more competitively important.

Dan Seeley: There are so many national retailers competing in local markets that you have to be constantly aware of the specifics of each market.

Neil Weinstein: The marketers are looking for ways to beat the competition with lower margins.

Ed Mangiafico: In many respects we are an overstored economy, in this environment any potential edge a retailer gains is critical to their success.

Dennis Green: The consumer has many more choices and the customer is value driven.

Robert Lane: How do we manage our in-stock performance under this new type of distribution that is emerging?

Dan Seeley: It is not just a question of being in-stock. It is not being over-stocked. That makes the management problem go up geometrically.

Dennis Green: I think most retailers have or are developing systemic measures of the in-stock service. Some are automatic replenishment others are more rudimentary. In the hosiery department the rule of thumb used to be to keep those slots full, and we would fill empty slots with product from the next slot. Now you leave the slot empty so there is a crying need for replenishment for out-of-stock items.

Charlie Armstrong: When you look at what you spend to get customers into your store, to risk disappointing them by being out of stock is just not worth it.

Dennis Green: You measure in-stock by how the customer perceives it. We do some statistical tests where we send people into the store and see if they can buy it. Sometimes you think it is in the store but it is in the back room.

Neil Weinstein: The mind-set that you can shift the sale to another product comes out of the past and the over-stored market is putting an end to it.

David Lynn: Customers are just less tolerant; they are going to go to the next store.

Dan Seeley: One of our discount store clients defines in-stock by having at least one of each sku in-stock for the customer to buy. They were forced to come to this standard because they had to deal with so many distributors.

Neil Weinstein: One thing that is driving that perception is the superstore, because the customer perceives that there is a larger assortment and they will be in-stock.

David Lynn: Plus, you have the promotion business and the regular business and you have to run both and be in-stock on both.

Dennis Green: The regular business *is* the promotional business. Who has "regular" business these days?

Bob Lane: Who in the organization should be responsible for in-stock management?

Neil Weinstein: A combination of the merchants and the inventory management group to deal with the issue of in-stock. I think that combination works well for inventory management.

Charlie Armstrong: Taking a leap from Hewlett Packard, they decided the logistics side of the group should be in charge because they were the ones who were going to be responsible for getting the product to the customers through-

Dennis Green, vp operations for Mervyn's.

The consumer choice is between retailer not between products.

out the supply chain.

Ed Mangiafico: You can't exist if you have singular responsibility. I would say that if the responsibility is in the logistics groups then you have everyone in the logistics group.

Dennis Green: I would have to disagree. It is the total organization's responsibility for being in-stock. Merchants deal with the assortment, while stores are in charge of selling the merchandise.

Ed Mangiafico: A lot will depend on what happens with retailing. You may have a lot fewer stores due to consolidation and a different vendor structure.

Dan Seeley: There is no question that the buying function will become a smaller group over time that takes care of selection.

Bob Lane: How are vendor and retailer relations changing?

Ed Mangiafico: I think the most exciting part of the discussion is the partnership of vendor and retailer, now that you can manage the flow wherever you can run a data line, which is now anywhere. And you can push inventory management back to the manufacturer.

Dan Seeley: What do you do when you open a data line to the vendor? You may find that you have opened up a morass at the vendor end. You think that these vendors are going to be able to use the information?

Charlie Armstrong: You have to have the vendor understand what the cost is for the total process.

Dennis Green: Cost has to include time, and it all means nothing if you are not in-stock.

Neil Weinstein: You may have the same company managing inventory in two different ways. You will have the big vendors dealing directly and a different way for the smaller vendor. But anyway you look at it, it won't be the traditional way. There is no longer a traditional way.

Charlie Armstrong: It is not just the technology, it is the philosophy of the vendor and the retailer.

Charlie Armstrong: The cycle from vendor to manufacturer is going to continue to evolve, because you go to the vendor and the vendor says, "I'd like to supply you with smaller shipments and quick response, but I can't get my grey goods supplier to accommodate."

Murray Forseter: The domestic mills are said to be fighting doing large runs, and fighting imports of high quality fabric.

Neil Weinstein: The idea of vendor/retailer partnerships sounds good, but what if the vendor has complete control over the inventory but does not get paid until the product is sold. Who is going to assume the risk? How is the risk involved in projections and when does a projection turn into a hard commitment? That is probably the most important issue: who is going to take the risk.

Dan Seeley: Your questions go back to data integrity down to the sku level so that the projections you make are reliable.

Robert Lane: Let's follow up on that, what role does data integrity play in the vendor/retailer partnership?

Ed Mangiafico: The most important part of the partnership is data integrity.

Neil Weinstein: You look at the consumer electronics industry where the sales people are incentivized and where the exchange is in the double digits, what do you think the salesperson is going to do when the exchange comes in. Nothing, and that corrupts data integrity.

Ed Mangiafico: What we did in May Co. was to make the problem with error rates part of their compensation and we saw error rates drop precipitously.

Charlie Armstrong: What they had at Venture is an error team to follow the product all the way back to the source and look for the error.

Dennis Green: The customer doesn't care about your data integrity. They don't want you to take their time to collect your information. The check out person is honorable in their intentions. They are trying to get the customer out of the store as quickly as possible.

Dan Seeley: You have got to have a commitment from the top down to make data integrity a priority.

Ed Mangiafico: Data integrity has to be chainwide.

Neil Weinstein: Technology is one obvious aspect, things like barcodes and scanning, and they give you the data in terms of sale rates.

Dan Seeley: The key is to capture the data once and then the data becomes a database that is a valuable asset that everyone needs but uses in a different way. We found that people were doing something with one part of the data and then destroying the data that they don't need.

Dennis Green: We have been measuring the accuracy from the vendors and we have found that it is within 1% and the picking accuracy has a 0.8% error rate. We can build in control, but the problem is at the point of sale where the sale is rung up. There is no control there. We have started to monitor point-of-sale activities and have found data integrity is lost most often at the cash register.

Bob Lane: How are deliveries from vendors going to change as a result of the changes in retail distribution?

Neil Weinstein: The answer is going to depend on the type of business you are in. In the consumer electronics more delivery to stores may not be the answer as opposed to the lady apparel chain. Turns are so slow in consumer electronics, you can deliver virtually all year with one delivery per week.

Dennis Green: I see the inventory moving out of the store and back into the total supply pipeline.

Ed Mangiafico: I think you will always have second level inventory, but some of it might be in the pipeline on trucks . . . but you need the data integrity to do that.

Bob Lane: Have the changes in the information collected on inventory affected older measures of inventory, such as turn rate?

Neil Weinstein: Turnover rate is more important to some retailers than to others such as in apparel.

Ed Mangiafico: To me turnover rate is a symptom of being in stock.

Dennis Green: I think turnover rate is a dangerous measure by itself. It's a score but not a goal.

David Lynn: From an inventory management viewpoint it is critically important but it can be very dangerous.

Dennis Green: Turnover is a resultant number, not a goal in and of itself. If we do what is right with inventory control, then we are going to have a higher turnover. It is a financial consideration for the high fashion retailer. It is more important for other retailers.

Neil Weinstein, former *vp distribution, Silo Electronics.*

David Lynn, senior *vp distribution services, McCrory.*

Robert Lane: How is the role of the distribution center changing as logistics change?

Dennis Green: Let's not use the fact that we got a DC to say, "Let's keep using it."

Ed Mangiafico: I am going to see the day when there will be no DC. I think that in the last few years I have really been trying to head there. Ultimately the vendors are going to be our DC. They will supply me with a box with all the information I need. I can handle it at a crossdock that I might not even own.

Dan Seeley: We are doing something where you get information to the vendor on Monday, Wednesday to the cross shipper, and to the store on Friday for sale on the weekends. I see the DC getting smaller and smaller. Eventually, we may see one DC serving everyone in town.

Neil Weinstein: In consumer electronics there is going to be resistance. You are dealing with a few vendors like Sony who have their own lead times, plus you don't know how a product is going to sell in each store until you get product out of the store. And since you may only need to have a trailer load to fill a store, you may have to overcome some economic inefficiencies to ship directly to the store, but I do agree that you can push the process back as far as you can go with the data.

Dennis Green: Third party suppliers are doing something different today because of data availability. You can develop systems that can allow the receipt function to be performed by anyone anywhere.

Neil Weinstein: With the bedding guys, the manufacturer said we can save some money by actually manufacturing the product after the customer has bought one of the same sku.

David Lynn: I think we have come full circle with the distribution center where 10 years ago you saw people having everything. The distribution center is now going to the point that you are trying to move everything direct to the store.

Neil Weinstein: The name of the game is speed, there is only one subject, speed.

Robert Lane: Where should replenishment decisions be made in the organization?

David Lynn: As retailers get larger it is easy to make entire chain predictions for a product, but not at a store level, and if you try to get rid of the distribution centers then you are going to have to have too many sku's in the store. I do see the item moving through the DC in hours or minutes. I see all of the non-selling functions out of the store. It is not so much the financial consideration as with the quality considerations.

Neil Weinstein: On the average in the consumer electronics business you see a 0.27 turn every four weeks. Compare that to The Limited where you have virtually no replenishment. You do a test store and then say we are going to 200 units and put it in there.

Dennis Green: I don't think there is one solution for everyone. We are a national chain. Competition can change the rate of sales day by day. I think it is going to change and it's going to change dramatically. My vision is that the store just becomes a selling machine. I don't think the store manager is going to be a merchant, he is going to be a seller.

Ed Mangiafico: I think the store manager's role is not to decide if he needs green pants but to sell green pants if he has them.

Murray Forseter: I disagree, I think you are seeing a move away from centralization.

***Ed Mangiafico, retired** chairman, May Co., Calif.*

***Charlie Armstrong, vp, Garr Consulting** Group, foreground, and Kevin Young, senior marketing manager, Avery Dennison.*

The most important part of the vendor-retailer partnership is data integrity. Data integrity has to be chainwide.

Ed Mangiafico: Once you have centralized and provided the system, then you can decentralize but you need to have the system. I would not use the word centralized but system, and it is more system driven rather than human driven. The organization needs to be system driven but people managed.

Robert Lane: At some retailers, once an item is on my shelf how much the store manager re-orders is strictly a store decision, but what they are going to carry is still coming down from the top.

Ed Mangiafico: Wal-Mart is giving the store manager ownership, but the decisions are still system driven.

Dan Seeley: It goes back to what Dennis said earlier. It all comes back to data integrity.

Ed Mangiafico: The fact of the matter is this needs to be more than just a support for the decision making. It needs to be the context within which the decisions are made. It needs to be the parameters within which the decisions are made.

Charlie Armstrong: With 1,000 stores, the real problem is how you are going to manage the process and the systems are going to make the decisions and the human is going to manage the system.

Robert Lane: Who wants to expand the discussion on system supported decision making?

Neil Weinstein: I don't think that there is anyone involved in the retail process that can account for forecasting. I think we need to develop better models. I think that we are at the level with newspapers in forecasting elections when they forecasted Dewey was going to win.

Charlie Armstrong: I think the retailer is going to take responsibility for the forecast initially. The resource will have a link at the store level and they will be able to adjust their production and planning. Like the department manager second guessing the replenishment, the vendor is going to second guess the reorder that the retailer is going to make.

Neil Weinstein: It all comes down to who is going to accept the risk and how far out you are going to go.

Dennis Green: We are sharing sales data and forecasts with 60% of our vendors, but what is most important to our vendors is our promotion schedule, because base sales alone are not a good predictor. The promotional plan is what gives the vendor confidence in your forecast. It is more a marketing strategy that just numbers.

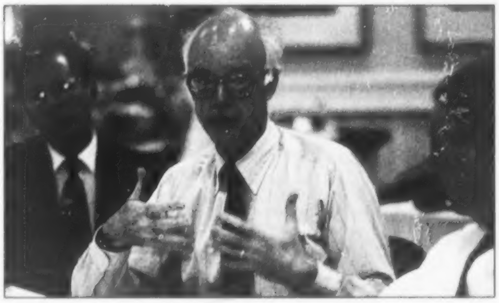
Charlie Yanak: What we want to know as a vendor is what are your promotional goals so we don't run out of merchandise.

David Lynn: We clearly want to remain in the driver's seat; we have begun to share data. In terms of risk we want the vendor to share that risk.

Dan Seeley: The problem goes beyond sharing forecasts with vendors. From one vendor I talked to, the EDI information was no good and the retailer did not have any idea on how to forecast and they had to go in and make their own models.

Robert Lane: How is the use of third party distribution changing?

David Lynn: I think the use of third party distribution is definitely going to increase—third party systems in general, expertise, union vs. non-union, economies of scale, there are a host of factors moving that way.



Dan Seeley, executive vp, Garr Consulting Group, center, Charles Yanak, left, senior marketing manager, Avery Dennison, and Neil Weinstein, former vp distribution, Silo Electronics.

Dennis Green: To the managers of internal DC's, the third party is their competition. They have to be more flexible, more responsive and more accurate. Some vendors are able to deal with EDI and some are not. Those that aren't are going to have to deal through a third party environment.

Ed Mangiafico: We are going to see with more and more vendors that the preparations of the item for sale becomes a cost of goods, and that the vendor takes care of it however he wants. With my vision of no distribution center then the vendor has to deliver the item to your store ready to sell.

Robert Lane: How is EDI evolving in your organizations?

David Lynn: I don't know if anyone has been successful at in-house integration of EDI.

Dennis Green: We use EDI for purchase orders. Sending vendors a purchase order is a done deal. We send a forecast out with every purchase order. Promotional orders are done separately. Everything is done at the total company level rather than at a store by store level.

Neil Weinstein: Silo was doing EDI with only two vendors and that was being done on a PC level. I suspect it will be calendared for 1993. Electronic payment for the purchases is being done.

Ed Mangiafico: All ordering (at May) is being done by EDI and some invoices, but not the ASN (Automated Shipping Notice). Payment was just beginning.

Robert Lane: How about integration of EDI with your vendors?

Dennis Green: Anytime you are very close with a vendor and you are on real time and they are on batch then you have real problems. Another problem is with picks. A third problem you have is that you need to have a shipment handled as one-week shipments. But, when ASN works, it is very slick.

Ed Mangiafico: The accounts payable department in terms of matching and reconciling is going to be gone within this decade.

Dennis Green: Today we create a label and put it on the carton. We would like to use the label from the vendor, but there are several problems. The labels don't have store-friendly information, the labels rub and lose scanning capability. Clean labels are not consistently placed for efficient scanning.

Dennis Green: Another thing we are trying to do is get the carriers to bring it right to the store and not take it to their areas.

Robert Lane: How is Quick Response changing inventory management?

Ed Mangiafico: With the vendors that can respond, Quick Response helps you with your turnover and in-stock service level with lower inventory. We did Quick Response with Hanes long before they had EDI. The motivation is to stay in-stock for the customer. Quick Response does not yield the response from just any vendor you want it to.

> **What we want to know as a vendor is what are your promotional goals so we don't run out of merchandise.**

Robert Lane, executive vp, Garr Consulting Group.

Neil Weinstein: Part of the Quick Response is how quick. GE guaranteed that they would never be out of stock for some items in their mixing stations and then have overnight response from the mixing stations.

Dennis Green: I personally think that Quick Response is a terrible word. What you are talking about is faster, until you get to the point of just-in-time. Anytime we make the time between the time a product is sold and when it is shipped is a quicker response.

Ed Mangiafico: There is some good empirical evidence that the vendor gains a competitive sales advantage from dealing with just-in-time response.

Neil Weinstein: What is in it for the vendor? The vendor has to see something in it for them. At GE they would get electronic payment and for them it is the time value of money.

Dennis Green: To come back to your question, how does the manufacturer benefit from Quick Response? They benefit from the gain in sales over their competitor and the financial success of the retailers.

Charlie Armstrong: Ultimately there is going to be a shortage of domestic production if everyone goes to Quick Response. The sewers say that they could do Quick Response if they could get the fabric.

Dan Seeley: If you want anything that is fancy then you are talking about offshore.

Dennis Green: You know the people overseas are making some real inroads on Quick Response.

Murray Forseter: You are seeing ads from Federal Express saying, "If you want Quick Response from Hong Kong, hey you can have it overnight."

David Lynn: Quick Response is really just-in-time, quick predicable response.

Ed Mangiafico: Just-in-time assumes that you have everything in place. Through the 90s you are going to see a trend to quicker response. You need better data integrity, better forecasting, and the ability to process in entirely different time frames than we have been talking about, and manage the whole flow process.

Dennis Green: The more time you take it out the better. It means a shift from the cost focus to a time focus. At Mervyn's, if we can eliminate three weeks of inventory, we can cover my entire payroll budget.

David Lynn: You are going to have to have standards in terms of how long the merchandise is going to be in the store.

Robert Lane: To wrap up, what would an organization look like in the 1990s to bring distribution and logistics to the point we have been talking about?

Neil Weinstein: For national specialty retailers, you need to have someone who reports to the ceo or president for the things we are talking about today to be taken seriously.

Ed Mangiafico: It is part of the function of the ceo; it is part of many functions in the company. It would be a function for the job coordinator for the people who are part of the process.

Ed Mangiafico: Logistics can mean a lot to distribution, you need staff support for that, but you need it to be "owned" by those who are responsible.

Dennis Green: The merchandising function is to get the merchandise selection, and the store part is to sell, and the piece in between is still evolving.

Neil Weinstein: You might have the logistics report to the ceo/coo as a staff support position rather than a line management.

David Lynn: I think it has to be reported at the highest level. It needs to be a womb to tomb concept.

Dennis Green: At Mervyn's, we have a logistics task force representing the key functional heads. This group has been responsible for the enormous gain in EDI. Also, they have implemented the Quick Response strategy which reduced total cycle time. Most importantly, they have brought total organization focus on the execution of logistics as a business strategy.

Ed Mangiafico: I think you will see gradual changes. In the past, carton labeling has moved some. We finally figured out we did not have to standardize hangers to get the manufacturer involved in the process. I don't think these changes will occur in a short process. We have a snapshot of a short span of the long river.

Dennis Green: We have to move from a retail accounting method to a cost basis. For that, you need to have good cost data. It is how the grocery stores and consumer products manufacturers work, and it's how the rest of retailing should be.

CHANGES IN DISTRIBUTION

Widespread changes are afoot. Dan Seeley, Garr's executive vp for merchandise logistics, suggests that the factors now driving change in retail include "massive competition, declining sq. ft. for merchandise to compete for the customer's dollar, and consumers who won't put up with unfocused assortments or out-of-stock positions."

"They don't have the time. They want certainty that retailers will have products they want when they want to buy them. That's why logistics is the business of satisfying customers," says Seeley.

Sources of Change From the Retailers Point of View: When executives are asked about the changes that "have really affected the way you manage and control inventory" three dominant themes are expressed.

The first theme concerns changes in the technology available to manage inventory. Department stores are most likely to see technological change as a major force changing logistics and distribution.

The next two themes most frequently mentioned are the drive to reduce inventory and the push to provide quicker response.

In effect, these two trends are sides of the same coin because Quick Response is the means to reduce inventory. Supermarkets and drug stores are most likely to mention reductions of inventory. Home centers are most likely to mention quicker response.

Changes Ahead: Most retailers who are currently using the following distribution methods tell us they plan to increase their use:

- Just-In-Time/Quick Response (72% plan to increase use)
- Measure store space productivity by sku or product line (55% increase)
- On-line planning system (60% increase)
- Identification of like trends across departments (59% increase)
- Information at the sku or product line level (50% increase).

What Nine out of 10 Retailers Plan to Do: Based on what they tell us now, 10 of the 13 distribution/logistics methods surveyed in our 1992 study will either be retained at their current level of use or increased by nine out of 10 retailers. Only one practice, vendor direct-to-store, is showing substantial declines.

"What Changes Have Really Affected The Way You Manage and Control Your Inventory In Your Company?" (spontaneous mentions)

	Type of Retailer						
	Total	Dept. Store	Mass Merch.	Spec. Apparel	Home Center	Super-market/ Drug	Other
Technology	34%	48%	22%	27%	19%	25%	58%
Reducing inventory	24%	17%	17%	27%	25%	38%	16%
Quicker response	16%	28%	6%	23%	31%	4%	11%
Economy/ recession	16%	13%	17%	27%	25%	13%	5%
Financial considerations	6%	13%	11%	—	6%	—	5%
Other	27%	9%	33%	41%	25%	21%	37%

Among Those Who Use Each Method . . .

	Percent Planning to . . .		
	Increase	Decrease	Stay The Same
Just in time/quick response	72%	1%	27%
On-line planning system	60%	1%	39%
Identification of like trends across depts.	59%	1%	40%
Measure store space productivity by sku or product line	55%	2%	43%
Information at the sku or product line level	50%	2%	48%
Store input on merchandise selection	47%	4%	49%
DC to stores	41%	8%	51%
Vendor certification	37%	2%	61%
Reduced network	36%	9%	55%
Information at the size or color level	36%	6%	58%
Basic locker stock in DC always on hand	28%	15%	57%
Vendor direct to stores	21%	23%	56%
In-transit inventory	16%	6%	78%

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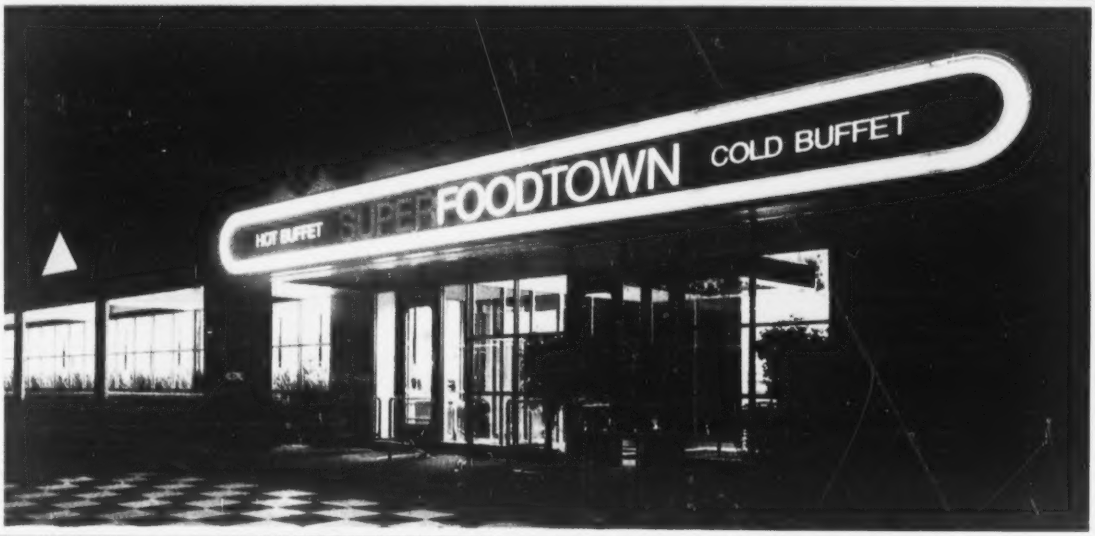

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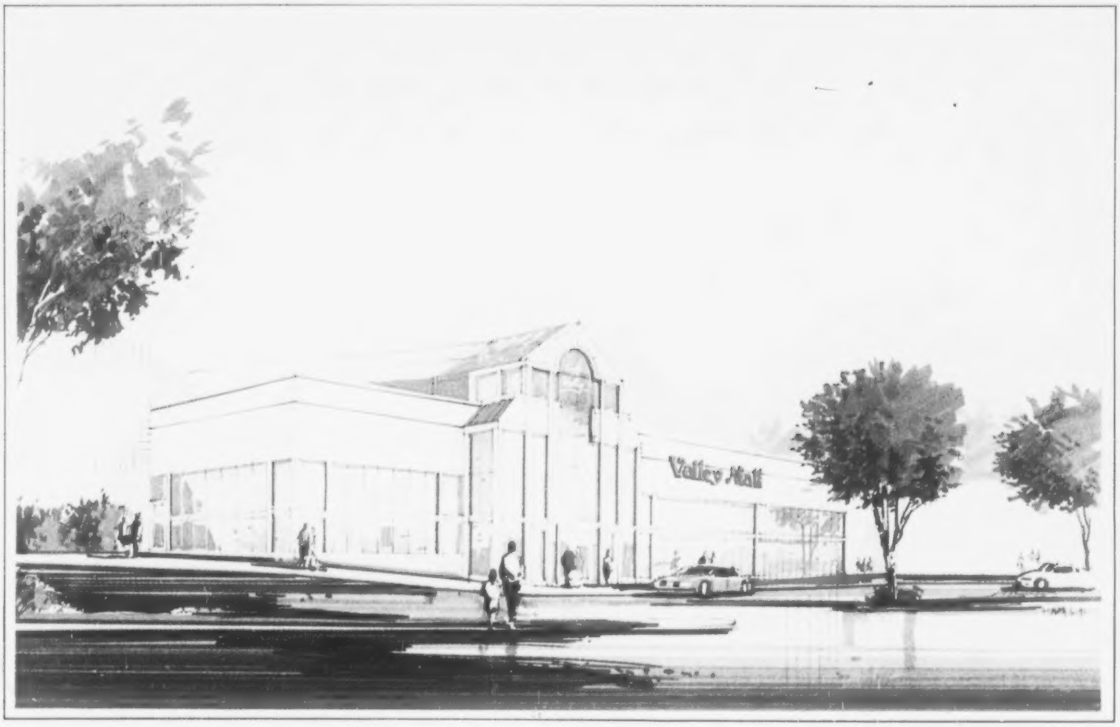

WAL-MART SETS UP SHOP IN THE VALLEY

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BATTLE OF GROCERY FORMATS INTENSIFIES

VENDORS UNDER PRESSURE TO CHOOSE SIDES

The battle between supermarkets and so-called "alternative" retail formats—wholesale clubs and deep discounters—is set to heat up as supermarket retailers arrive at the Food Marketing Institute show in Chicago this month.

Final versions of FMI-commissioned reports on the impact and economics of the formats are expected to be released at the annual conference, the supermarket industry's largest. Once those reports are released, discussion of possible retaliatory actions will likely take center stage.

Many supermarket retailers are determined to reverse, or at least halt, continuing losses of market share to the deep discounters and clubs, which they believe are receiving favored treatment from grocery manufacturers.

But even as a possible showdown between supermarkets and grocery vendors seems ready to emerge, there are indications that not all vendors will be as easily intimidated as they might have been a decade ago, when the alternative formats were still in their infancy.

Perhaps the clearest indication is the position taken by Procter & Gamble, which is employing a radical new pricing strategy in 40% of its product categories.

The P&G strategy cuts list prices for merchandise, but also severely limits or eliminates the up-front allowances and co-op advertising dollars that promotion-oriented conventional supermarkets are accustomed to receiving.

This strategy fits in precisely with the approach of clubs, deep discounters, and other so-called Every Day Low Price (EDLP) retailers, including some mass merchants, such as Wal-Mart, and even some supermarkets, such as Food Lion.

P&G denies that its strategy is designed to favor any particular group of its customers. But many supermarket retailers see the move as a thinly-veiled attempt to force the EDLP approach onto the entire industry, most of which follows a high-low pricing strategy based on deals, trade allowances and promotions.

Marketing studies show that while trade allowances have gone up, brand loyalty has declined

If this were indeed P&G's intention, it would not be without cause. For many years, marketers have complained about the increasing amount of promotion dollars they are expected to pay to the trade. Once uttered in a hush, the complaints have become progressively louder.

Jeff Hill, group vp and partner, Glendinning Associates, Westport, Conn., a consulting firm which has developed consumer and trade programs for two-thirds of the top 100 national advertisers, says that promotion dollars increased 50% in 1991 over 1990, and are double what they were in 1975.

High-low retailers rely on the funds to provide 40% to 70% of their bottom line profitability, he claims. But from the marketers' perspective, the funds serve only as short-term volume builders and do nothing to build brand loyalty.

Indeed, he says, marketing studies show that while trade allowances have gone up, brand loyalty has declined. Consumer perception of branded goods versus private label is at an all-time low, with private label now representing some 19% of supermarket sales.

Many marketers have come to conclude that promotion dollars now spent on the trade would be better spent on increased national advertising and research and development, which are considered far more reliable and successful enhancers of brand loyalty.

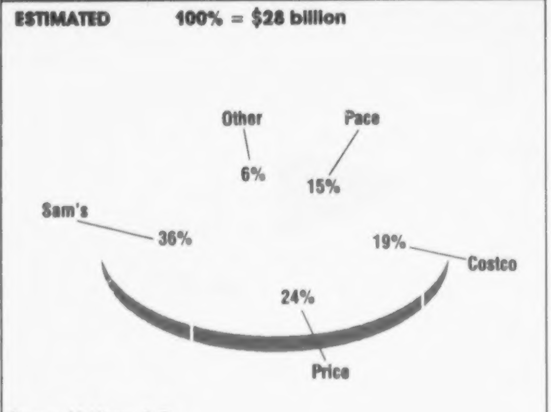
Still, the clout of high-low retailers, such as A&P, American Stores and Kroger, remains considerable, and no other manufacturer has dared to challenge that clout as boldly as P&G has.

Kraft has made some moves in the EDLP direction, but only in its strongest 4% of categories.

Hill says that many marketers with less category dominance than P&G are waiting to see whether the company's strategy succeeds. If it does, they will likely adopt similar strategies.

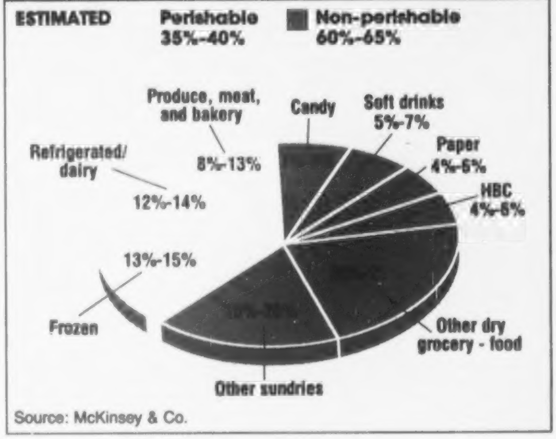
On the other hand, some marketers see P&G's move as a competitive opportunity, and are taking action to align more closely with the high-low retailers who want to see the strategy fail.

Of course, these same marketers also have separate pricing programs meant to appeal to the EDLP retailers, who have grown too strong to ignore. And therein lies the heart of the conflict between supermarkets and



Warehouse Club Industry Structure 1991 $ Sales

Source: McKinsey & Co.



Warehouse Club Sales Mix— Grocery-Related Products Only

Source: McKinsey & Co.

the alternative formats.

Supermarket retailers argue that the deep discounters and clubs are being given superior deals. In fact, argues Hill, they are simply getting deals structured to their way of doing business.

The high-low player is offered an invoice rate and promotion moneys. The EDLP player receives no promotion money, but gets a lower invoice rate.

In addition, wholesale clubs are rewarded for the way they reduce the manufacturer's cost of doing business. The acceptance of palletized loads, larger sizes, and huge quantities of items makes doing business with the clubs extremely efficient, and most manufacturers are more than willing to pass part of that savings along to the clubs.

Whether such policies by manufacturers constitute a violation of the Robinson-Patman Act, the federal law which provides retailers' lawyers with their most powerful ammunition in "level playing field" disputes, is unresolved, says Irving Scher, a partner at Weil, Gotshal & Manges, New York, and an expert on the act.

But he adds that the Federal Trade Commission is not aggressive in enforcing the act, and that there are "lots of ways" a creative manufacturer can get around the act's provisions.

According to preliminary findings of the FMI reports, consumers are handed an average price advantage of 26% from club stores.

Differences in the acquisition price of merchandise accounts for less than half the difference, operating efficiencies account for the remainder.

Hill predicts that the conflict between high-low and EDLP retailers will be ongoing, with winners on both sides.

"The EDLP players don't hold the monopoly on efficiency," he says. "Manufacturers realize that there are some high-low players who are very efficient to do business with, including Pathmark."

In addition, he points out, consumers aren't interested in price alone. Retailers can also compete on service, selection and quality—components which have lost some luster during the current recession, but which will eventually be back in fashion. ■

—**Bruce Fox**

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SHOPPING CENTER AGE

THE CHANGING FACES OF CALIFORNIA

MULTICULTURAL SOCIETY PROVIDES CHALLENGE FOR RETAILERS, DEVELOPERS

When it was first built in 1985, Montebello (Calif.) Town Center appealed to a predominantly white, middle class market. Just seven years later, that market has changed.

"Within five miles of Montebello, we now have the largest Taiwanese colony outside of Taiwan," says Daniel W. Donahue, chairman of Newport Beach, Calif.-based Donahue Schriber, the center's developer.

Adapting to the new population in the market had some unexpected twists for the center's employees.

"The native Taiwanese are used to bartering for goods. We had many instances where a customer was ready to barter for merchandise. It was a real learning curve for them that it wasn't done that way, and it was shocking to us," Donahue relates.

Adapting their method of payment is only one of the adjustments these immigrants are making in their new home. But the greater adjustment may be on the parts of the retailers and developers who service them.

While many still think of California as a land of palm trees, movie stars and earthquakes, the biggest earthquake in the state may not be physical. At first slowly, then far more rapidly in the past decade, the face of the typical Californian is changing. In fact, there might not be a typical Californian at all by the end of the 1990s.

***Donahue Schriber's Montebello Town** Center (Calif.) now has a large Taiwanese market.*

Population changes: Immigration and emigration are changing the racial and ethnic makeup of the nation's most populous state. Nearly half of the newcomers to California in the latter half of the 1980s were foreign-born immigrants.

A population that was more than two-thirds Anglo-Caucasian in 1980 became more multiracial by 1990—7.4% African-American; 0.8% Native American, Eskimo or Aleut; 9.6% Asian or Pacific Islander; 25.8% Hispanic, according to the U.S. Census Bureau. By the end of the decade, there will be no clear ethnic majority in California.

The Asian and Hispanic groups have shown the greatest growth over the last decade. The total African-American population remains relatively stable (*see chart, page 54*).

California's increasing multiculturalism means dramatic changes in the state's way of life. Public services are being offered in a variety of languages to accommodate the newcomers. Pacific Bell provides customer service in English, Spanish, Vietnamese, Korean, Cantonese and Mandarin.

For retailers and their landlords, new questions arise: Are the new populations of the state being served by the existing shopping structure? How must they adapt to serve these new Californians? Or does the industry need to adapt at all?

California retailers and developers are just beginning to struggle with how to target their new markets, with varying success. Their counterparts with projects in other immigrant meccas from New York to Seattle will watch California's lessons closely.

Who: The first problem in dealing with the new Californians is categorizing them. Each ethnic "group" can be broken down into subgroups that have very different traditions.

Asians include Chinese, Japanese, Koreans, Vietnamese, Thais and Filipinos, all with individual languages and cultures.

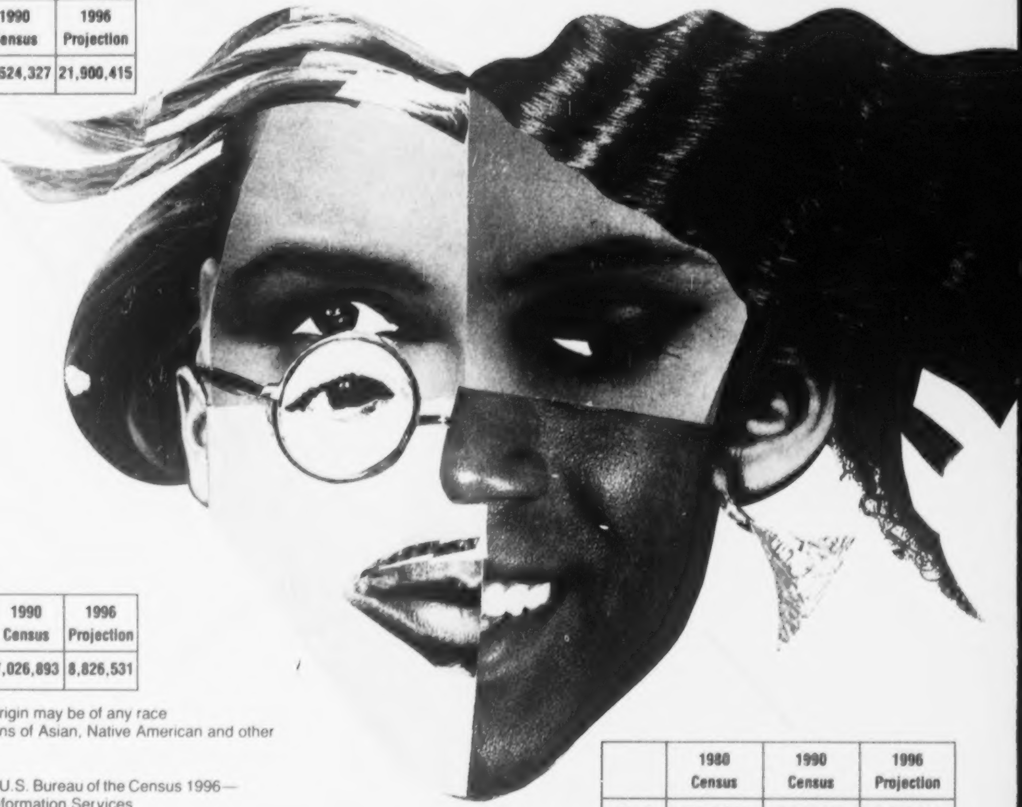
"The market is harder to dissect because of the language barrier," says Thomas Schriber, president of Donahue Schriber.

Spanish speakers may originally have hailed from Mexico, Cuba, Puerto Rico or any of a number of Central and South American countries, again with different histories and buying patterns.

Nor should a retailer or developer assume that a market composed of

California Population Changes (by racial/ethnic group)

	1980 Census	1990 Census	1996 Projection
White	18,032,000	20,524,327	21,900,415



	1980 Census	1990 Census	1996 Projection
Other**	3,817,500	7,026,893	8,826,531

*Persons of Hispanic origin may be of any race
**Other includes persons of Asian, Native American and other origins

Sources: 1980, 1990—U.S. Bureau of the Census 1996—Donnelley Marketing Information Services

	1980 Census	1990 Census	1996 Projection
Black	1,819,000	2,208,801	2,422,319

immigrants is poor. Unlike the European newcomers of the last century, the new Californians are not necessarily fleeing war or poverty. Those who are, are as determined as their predecessors to achieve the "American Dream."

"Some of the Vietnamese immigrants were very wealthy when they arrived, and others are starting to buy and own their own businesses. Some of the Chinese immigrants are now buying stores in the mall," says Skip Keyzers, senior vp of Santa Monica, Calif.-based MaceRich.

With so many subdivisions, each market must be examined closely. Shopping centers and stores have to adapt to their own individual market.

Re-tenanting: Developers may have to consider tenanting their centers differently. While individuals vary, the 1992 *Stillerman Jones & Co. National Benchmarks* indicates that various ethnic and racial groups do spend portions of their shopping dollar differently (*see chart, page 55*).

As a group, Asian consumers spend more of their regional mall shopping dollar at a conventional department store than other groups, while spending far less on jewelry. Hispanic consumers spend more on children's apparel than the other groups in the survey. African-Americans spent the most of any group on women's apparel, men's apparel, shoes and jewelry.

It might make sense, therefore, for developers to cater to these needs in a market dominated by a particular group, says Jody Martin, vp at Stillerman Jones, Indianapolis.

"The purchasing by these groups might be limited by the number of stores available. If more stores in these categories are at the center, the potential for spending could increase," Martin says.

Surveys, however, are no substitute for looking at the market.

"You can look at the physical characteristics of your market," and adapt to them, advises Robert Sorenson, vp-property management of San Diego-based Hahn Co. Petite stores may be more successful in an area with a good many first generation Asians. Larger-size stores have been found to do well in areas with a large number of other ethnic minorities.

One answer seems to be to encourage the new groups to come into the retail business.

"Since Hispanics as a group like to buy jewelry, we have Hispanic-owned jewelry stores," says Keyzers.

The even more tightly-knit Asian groups already have a tradition of servicing their own communities.

"You have entire retail blocks with stores with Japanese, Taiwanese or Korean names, with no European

	1980 Census	1990 Census	1996 Projection
Hispanic*	4,544,000	7,687,938	9,456,998

names at all," Schriber observes. Bringing these stores into the regional mall to replace weaker tenants will bring the new consumers in.

Remerchandising: While developers wait for leases to come up for renewal, it's up to their existing tenants to adjust to the new market, whether by creating separate divisions or remerchandising their stores.

Thus far, the Latino market has proven to be easier to reach. Arcadia, Calif-based Von's has created Tianguis, an entire supermarket geared toward the Mexican-American consumer. Signs and employees are bilingual. The store stocks foodstuffs specific to Mexican-American tastes and traditions.

Chains have been less successful in attempting to penetrate the diverse Asian markets. As in heavily Asian enclaves in both San Francisco and New York, independently-owned groceries service those groups.

Other stores have adapted their merchandise mix to suit the tastes of their clientele, Keyzers notes.

"Some of our stores will cater to their markets in terms of clothing styles," he says.

Cosmetics and other health and beauty aids are the most obvious merchandise that may be altered.

But some retailers don't really need to adapt at all.

"Mervyn's and Wal-Mart are cross-cultural. Everyone shops at Mervyn's," says Douglas Wiele, partner of Whitney Development Co., Orinda, Calif., and the state director for Northern California.

Walnut Creek, Calif.-based Long's Drug Stores has always followed a decentralized buying policy, says William Combs, vp-administration. This allows stores to target their individual demographics, whether based on ethnicity, income or age.

"The individual stores run their own show, and merchandise according to their population's needs. When we're in a market, we buy based on what the customers tell us they want," Combs says.

Speaking to the customer: Marketing to these customers becomes as much a question of speaking their language as understanding their buying patterns.

Marketing to an African-American market is easiest in one respect.

"With the black population, you still have a common language," MaceRich's Keyzers says.

Many developers and retailers have begun advertising on Spanish radio and television stations, and in Spanish newspapers and magazines. Promotions are geared toward specific Mexican or other Latino holidays. Running promotions on Sundays, a heavy shopping day for Hispanics, may also be helpful.

But targeting the Asian market can be nearly impossible.

"I can't say I'm going to market to the Asian market. There are so many different groups," Sorenson says.

Adapting: Some developers believe that the adaptations may not necessarily be permanent. Many of California's newcomers become "Americanized" quickly, and their children will have grown up in the state.

"The second generation Japanese, for example, have assimilated," Sorenson notes.

"The Hispanic consumers we've seen want to become Americanized, and like American branded merchandise, such as The Gap," says Schriber.

Whatever the changes, accommodating market shifts is the function of the shopping center industry and its retail tenants.

"We thought we'd identified *the* market for a center. But now the center is 15 years old and its market has changed, whether that change is ethnic or because the market is 15 years older. We must adapt to what the market is today," Sorenson says.

Continuing to adapt will require a good deal more vigilance than in the past. The market changes now transforming California have essentially taken place over the last 10 years.

"We are going to have to study our demographics more often. Where previously we may have reviewed them every five or six years, now we'll have to examine them every three or four years," Schriber says.

The particular challenges facing California retailers and developers today, servicing a multiracial, multicultural society, may not confront many areas in the United States for decades, if ever. But the solution to the challenge is the same as for any area facing changing demographics.

"This is an area in transition. Those who adapt will be successful. Those who don't will fail," Donahue says. ■

—Debra Hazel

Percentage of Sales Contributions Per Group Per Shopping Trip
(regional malls)

Store Type	White	Black	Asian	Hispanic
National department stores*	15.33%	12.07%	8.98%	15.11%
Conventional department stores	33.85	30.80	41.67	31.00
Specialty department stores	0.40	0.31	0.36	0.03
Discount department stores	2.27	2.08	0.09	1.61
Women's apparel	9.75	13.02	9.13	10.19
Men's apparel	2.70	6.80	4.36	2.94
Children's apparel	0.49	0.57	0.09	0.91
Shoes	4.93	10.27	4.17	6.01
Jewelry	4.49	9.16	2.65	4.39
All other	25.80	8.09	28.61	27.89

*Sears, Roebuck, J. C. Penney, Montgomery Ward

Note: Because of rounding, numbers may not add to 100%

Source: 1992 Stillerman Jones & Co. National Benchmarks

BIG NUMBERS DON'T TELL THE STORY

THE PIPELINE IS DRYING UP FOR MANY OF THE FASTEST GROWING DEVELOPERS

***Crown American opened Martinsburg Mall** (West Va.), last year, but chairman Frank Pasquerilla says no new projects are under construction now.*

Sometimes, numbers can be deceiving.

At first glance, the fastest growing developers of 1991 had a pretty good year. The number one developer, Youngstown, Ohio-based Edward J. DeBartolo Corp., opened nearly 6 million sq. ft. of new retail space.

Crown American Corp., Johnstown, Pa., placed second with just over 3 million sq. ft. of construction. Even the number 10 developer, Melvin Simon & Associates of Indianapolis, opened 1.4 million sq. ft. of space.

But the numbers are now starting to reflect the credit crunch that is strangling development. All of last year's top 10 developers opened more than 2 million sq. ft. last year. And in the following pages, several of this year's big winners admit that new projects are at a standstill. Most of the new centers opened this year were planned, and financed, before the money ran dry.

More than ever before, expansion accounted for new space constructed, much of it the addition of anchors to existing regional malls. Interestingly, less specialty space is being added, probably reflecting the recessionary expansion thinking on the part of retailers.

Some of this year's top 10 developers are still building new centers, mostly because of a tradition of using equity to finance projects. Chicago-based Homart has several centers under construction, with still more ready to be built. Buoyed by Price Club's financing, Los Angeles-based Kornwasser & Friedman also has elaborate expansion plans. And Simon will open its long-awaited Mall of America this summer.

Others are focusing on expansion, maximizing the potential of already-developed properties.

The slowdown undoubtedly has begun, yet most of the developers can agree with Simon's executive vp-development, Jerry Garvey.

"We're just glad to be alive," he says. ■

Fastest Growing Developers

	New sq. ft. 1991	Number of projects 1991	New sq. ft. 1990	Number of projects 1990
Edward J. DeBartolo Corp.	5,919,153	13	3,888,395	13
Crown American	3,015,828	7	1,405,144	12
New Market Cos.	2,701,722	9	394,744	2
CBL & Associates	2,166,350	6	2,280,319	10
Western Development	2,100,000	1	2,200,000	1
Kornwasser & Friedman	2,023,000	19	2,255,000	15
General Growth Cos.	1,993,500	6	2,846,000	6
Wilmorite Inc.	1,900,000	4	3,400,000	4
Homart Development	1,856,629*	8	3,979,364	9
Melvin Simon & Associates	1,446,488	7	4,690,050	21

* Includes space since sold

Source: Company reports

EDWARD J. DEBARTOLO CORP.

***CoolSprings Galleria** is a joint venture of CBL & Associates and DeBartolo Corp.*

Edward J. DeBartolo Corp.

Centers opened in 1991

The Avenues, Jacksonville, Fla.—200,000 sq. ft. expansion
Biltmore Square, Asheville, N.C.—82,245 sq. ft. expansion
Chesapeake Center, Chesapeake, Va.—25,916 sq. ft. expansion
CoolSprings Galleria, Nashville, Tenn.—1,350,000 sq. ft.
Dadeland Mall, Miami—78,883 sq. ft. expansion
The Florida Mall, Orlando, Fla.—207,962 sq. ft. expansion
Highland Lakes Center, Orlando, Fla.—488,954 sq. ft.
Illinois Centre, Marion, Ill.—851,576 sq. ft.
Mainland Crossing, Texas City, Texas—473,491 sq. ft.
Mall of the Mainland, Texas City, Texas—940,660 sq. ft.
Paddock Mall, Ocala, Fla.—146,486 sq. ft.
Terrace at the Florida Mall, Orlando, Fla.—109,500 sq. ft.
Virginia Center Commons, Richmond, Va.—963,478 sq. ft.

Source: The Edward J. DeBartolo Corp.

With nearly 6 million sq. ft. of new space opened last year, one might think that Youngstown, Ohio-based Edward J. DeBartolo Corporation would want to take a breather in 1992.

In terms of new shopping centers, it is.

"We have no new centers under construction right now," says Richard Sokolov, senior vp-general counsel.

Blame the ever-present credit crunch for the slowdown.

"It's just a function of the present time. Everyone is facing a lag. We'll wait until a better time," Sokolov says.

This year's surge is simply the result of some delays in projects scheduled for a 1990 completion and 1991 centers all opening together.

"A number of projects reached maturity, coincidentally, in 1991," Sokolov says.

For example, CoolSprings Galleria in Nashville, Tenn., was developed by Chattanooga, Tenn.-based CBL & Associates, and DeBartolo joined as a joint venture partner later on. Other projects were years in the making, finally opening last year.

But the company isn't ceasing all activity. Expansion of existing projects are a main focus.

Sokolov declined to comment on published reports of financial difficulties at DeBartolo. But he noted that while new malls are not in the firm's immediate future, they are still part of the long-term plan.

"We're not abandoning new development. We have six regional mall parcels which we own and are actively working on," he adds. ■

CBL & ASSOCIATES

CBL & Associates

Centers opened in 1991

The Avenues, Jacksonville, Fla.—200,000 sq. ft. expansion
BJ's Plaza, Portland, Maine—105,000 sq. ft.
CoolSprings Galleria, Nashville, Tenn.—1,350,000 sq. ft.
Seacoast Shopping Center, Seabrook, N.H.—235,000 sq. ft. expansion
Valley Crossing, Hickory, N.C.—56,350 sq. ft. expansion
Willow Springs Plaza, Nashua, N.H.—220,000 sq. ft.

Source: CBL & Associates

Conservative growth is the focus for Chattanooga, Tenn.-based CBL & Associates.

The firm's nearly 2.2 million sq. ft. of new space last year places it fourth on this year's list, and more new retail is on the way.

"Development is going to be on a much more conservative rate for everyone in the shopping center industry," says Charles B. Lebovitz, president and ceo.

Overbuilding and turmoil in retail are two factors, followed by "the lack of willingness on the part of banks to provide financial support," Lebovitz says.

Add in the recession and the effects of the 1986 tax law, and "all unfortunately have come together in the same general time frame."

But development does continue. The firm opened Lakeshore Mall in Sebring, Fla., in February, anchored by Belk, J. C. Penney, Bealls and Kmart.

"We're working to start construction during the next 18 months on two regional malls, and in the pipeline are several others with department store commitments under negotiation," Lebovitz reports.

The firm is being extremely careful to determine its projects are needed. Never a company to indulge in speculative building, CBL is researching every potential center and expansion.

"We're not building for the sake of building. We're taking a much more careful approach, and satisfying ourselves that the market will support the total additional retail—not just the department stores but the new amount of small shop space, as well," Lebovitz says.

The firm is continuing to increase its focus on strip center development. The firm's Boston office has opened its first three projects and is working on more.

"Our program is still definitely going ahead," he adds. ■

KORNWASSER & FRIEDMAN

Kornwasser & Friedman

Centers opened in 1991

Hollywood Galaxy, Los Angeles—150,000 sq. ft.
International Bazaar, Santee, Calif.—102,000 sq. ft.
Price Club Plaza, Maple Shade, N.J.—116,000 sq. ft.
Price Club Plaza, Bakersfield, Calif.—107,000 sq. ft. expansion
Price Club Plaza, Chesterfield, Va.—115,000 sq. ft.
Price Club Plaza, Denver—117,000 sq. ft.
Price Club Plaza, Aurora, Co.—112,000 sq. ft.
Price Club Plaza, Seekonk, Mass.—112,000 sq. ft.
Price Club Plaza, Wayne, N.J.—229,000 sq. ft.
Price Club Plaza, Buffalo, N.Y.—112,000 sq. ft.
Price Club Plaza, Copiague, N.Y.—68,000 sq. ft.
Price Club Plaza, Corona, Calif.—133,000 sq. ft. expansion
Price Club Plaza, Glendale, Calif.—16,000 sq. ft. expansion
Price Club Plaza, Whitemarsh, Md.—61,000 sq. ft. expansion
Price Club Plaza, Hazlet, N.J.—118,000 sq. ft.
Price Club Plaza, New Britain, Conn.—123,000 sq. ft.
Price Club Plaza, Carmichael, Calif.—12,000 sq. ft expansion
Price Club Plaza, Glen Burnie, Md.—92,000 sq. ft. expansion
Price Club Plaza, Tempe, Ariz.—128,000 sq. ft. expansion

Source: Kornwasser & Friedman

While other developers are struggling to construct new projects, Kornwasser & Friedman just keeps rolling out Price Club Plazas around the country. With 2,0230,000 sq. ft. of new construction last year, the firm ranks sixth on this year's list.

The current downturn in construction and real estate prices are a boon to the firm. Price Club finances all projects internally, freeing Kornwasser & Friedman from the credit crunch still devastating the industry.

"It's an opportunity. A lot of properties that were too expensive or were intended for 'higher and better uses' such as office buildings or even malls are not being built. So the properties are available to us, and it's time to take advantage of it," says Joseph Kornwasser, managing partner of the Los Angeles-based developer.

Yet the firm will not take advantage of historically low prices by warehousing land for years, even decades, as it waits for a market to grow.

"We don't buy land to put in inventory. If we buy a site, it's to build on right away. If we can't build within a year or two, we won't buy the land," Kornwasser says. Even in boom markets, he notes, the firm is buying properties and developing them quickly.

"We'd rather take advantage of known commodities. It's part of the conservative approach we've always had," he adds. The firm builds near major urban markets that already are highly developed.

That isn't slowing down construction.

"If anything, we're looking at building more projects in the future," Kornwasser says. Projects are under way in Texas and Chicago, new markets for the firm, and expansion continues in the Northeast, California and Arizona.

"With all that, we have quite a lot to build in the next two years," Kornwasser says. ■

NEW MARKET COS.

New Market Cos.

Centers opened in 1991

Auburn Plaza, Auburn, Maine—256,612 sq. ft.
Colonial Commons, Harrisburg, Pa.—428,460 sq. ft.
Crossroads Plaza, Cary, N.C.—670,000 sq. ft.
Great Hills Market, North Austin, Texas—146,378 sq. ft.
Marketfair North, Syracuse, N.Y.—130,257 sq. ft.
Sandy Springs Crossing, Atlanta—134,850 sq. ft.
The Shops at Clark's Pond, Portland, Maine—229,147 sq. ft.
Sunset Valley MarketFair, South Austin, Texas—360,980 sq. ft.
White Rock Marketplace, Dallas—345,038 sq. ft.

Source: New Market Cos.

Jumping from just under 400,000 sq. ft. of construction in 1990 to more than 2.7 million sq. ft. in 1991 is quite a leap. Atlanta-based New Market Cos., sees it as a culmination of years of work.

"A lot of our space probably should have opened sooner, but was delayed. It all just came together in one period," says Chip Groome, president of New Market Management.

"We were a little delayed, and everything was shoved into one year," Groome says.

"We're fortunate. But given the success we're having, we might have grown two to three times faster. We'll continue to grow, but at a slow and steady pace," he says.

Even with such growth, focusing on the existing portfolio is a major concern to the firm, which now specializes in power centers. The firm also is working on joint ventures, with financial institutions who require a developer's expertise.

"There has been overbuilding. Even some of the product we built years ago are not holding up exceptionally well to the test of time," Groome admits.

Fixing those centers likely will entail replacing some of the mom-and-pop tenants with the category killer anchors that tenant its power centers. The firm is doing the same with the centers it manages for other owners.

"The older centers had too much spec space. We're trying to match up other anchors to those locations," Groome says.

"If there's a reason for our success, that may be it. We were working with these anchors in their infancy 10 years ago. Now they want to grow, and we can help them," he says. ■

MELVIN SIMON & ASSOCIATES

For most development firms, opening more than 1.4 million sq. ft. of new shopping center space would be a substantial achievement. At Indianapolis-based Melvin Simon & Associates, that figure is actually something of a lull.

But that number will rise substantially in 1992 with just one opening, as the firm looks forward to the Aug. 7 debut of its much-ballyhooed Mall of America.

The Bloomington, Minn., 2.6 million-sq.-ft. megamall is right on time, reports Jerry Garvey, executive vp-development.

Melvin Simon & Associates

Centers opened in 1991

Lincoln Crossing, O'Fallon, Ill.—23,860 sq. ft. expansion
Lloyd Center, Portland, Ore.—198,447 sq. ft. expansion
Newport Ltd. Office Tower (retail portion), Jersey City, N.J.—32,358 sq. ft.
Oakview Mall, Omaha, Neb.—612,081 sq. ft.
Scottsdale Galleria, Scottsdale, Ariz.—414,892 sq. ft.
St. Charles Town Center, Waldorf, Md.—125,750 sq. ft. expansion
White Oaks Plaza, Springfield, Ill.—39,100 sq. ft. expansion

Source: Melvin Simon & Associates

"All of our anchors are right on target and will make the opening, and leasing is going great," Garvey says. The firm has employed enough leasing reps to lease three or four regional malls.

The firm's other major project, Circle Centre in Indianapolis, is finally starting to make progress, after a credit crunch-driven delay.

"Downtown projects take an incredibly long time. We've been working on this center for 12 years," Garvey says.

With a consortium of corporate investors confirming financing, and the signing of Nordstrom, plans for the center are moving along.

Last year's new projects included the 400,000-sq.-ft. unanchored specialty center Scottsdale (Ariz.) Galleria, which Garvey acknowledges is going through a typical shakeout period.

"It will take time for the center to find its niche in the marketplace," he says, noting that the entertainment component of the project already is quite successful.

Garvey remains optimistic about the industry, and Simon's future.

"The ability to raise capital is more difficult than in years, but that hasn't stopped what is needed," he says. ■

WILMORITE

Wilmorite

Centers opened in 1991

Charlestown Mall, St. Charles, Ill.—1,000,000 sq. ft.
Freehold Raceway Mall, Freehold, N.J.—300,000 sq. ft. expansion
Shoppingtown Mall, Syracuse, N.Y.—300,000 sq. ft. expansion
Wilton Mall, Saratoga, N.Y.—300,000 sq. ft. expansion

Source: Wilmorite Inc.

Maximizing anchor space at its centers will be a major goal of Rochester, N.Y.-based Wilmorite.

After opening 1.9 million sq. ft. of new retail space last year, expansion and renovation will be the focus for the firm.

Work is continuing on various projects, with Nordstrom opening at Freehold (N.J.) Raceway Mall in August, and Macy's and Stern's set to join the center, which already is anchored by Lord & Taylor, J. C. Penney and Sears. J. C. Penney is being added to Charlestowne Centre Mall in St. Charles, Ill.

The latter center, in particular, is a conduit for growth. It is Wilmorite's first out of its normal base in the Northeast. "We were so used to being in the Northeast. St. Charles provides a new dimension for us, and changes the way we do business—we meet new tenants, for example," says John Kraus, president of Wilmorite's Genesee Management division.

The new tenants can only help in further expansion. Stern's is opening, and a new anchor is joining Irondequoit Mall this year. Greece Towne mall, the firm's first center, will be expanded this year, as it is joined to another center to create a 1.7 million-sq.-ft. mall. Camillus (N.Y.) Mall is being reconfigured, as well.

Some new development is being planned. Wilmorite hopes to begin work on the Galleria at Plainville in Connecticut once legal difficulties are ironed out. Groundbreaking is set for 1992 or 1993.

"It's the kind of project developers live for," Kraus says.

"We've been focusing on back to basics, perceiving our assets as what they really are and working with them. People are putting money where it's smart," Kraus says. ■

HOMART DEVELOPMENT

Homart Development

Centers opened in 1991

Bay City Mall, Bay City, Mich.—445,000 sq. ft.
Eastgate Mall, Cincinnati—257,000 sq. ft. expansion
Eastgate Mall Crossing, Cincinnati—190,770 sq. ft.
Glendale City Center (retail portion), Glendale, Calif.—53,000 sq. ft.
NewPark Mall, Newark, Calif.—124,000 sq. ft. expansion
Pembroke Commons, Pembroke Pines, Calif.—346,851 sq. ft.*
Superstition Springs, East Mesa, Ariz.—150,000 sq. ft. expansion
Vista Ridge Mall, Lewisville, Texas—290,000 sq. ft. expansion

*Since sold.

Source: Homart Development

Slower, but steady, may be the development theme at Chicago-based Homart Development. While its 1.8 million sq. ft. of new retail opened in 1991 is less than in some previous years, the firm is planning new construction.

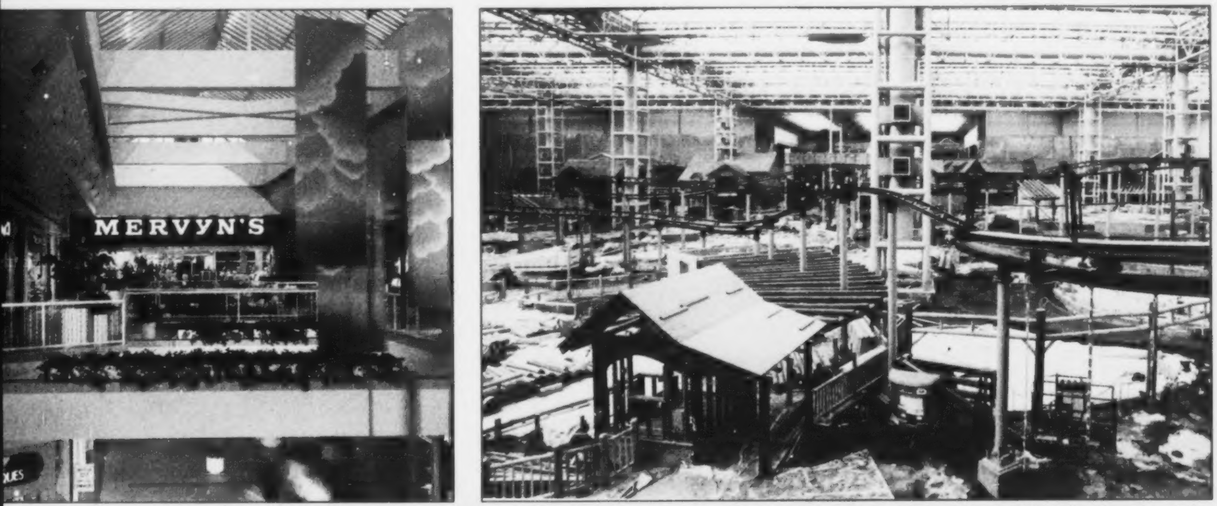
Bolstered by the financial clout of corporate parent Sears, Homart's investment traditions have allowed it to keep building when many other large firms are not.

"We have a history of putting corporate equity into our projects, so the current environment doesn't affect us," explains Richard Welcome, senior vp-development.

The firm's Moreno Valley at Towngate Mall is scheduled for an October 14 opening (see story this issue), and Pembroke Pines Mall will open in September.

"We've also started plans for a major center in north Atlanta, and are planning a major expansion of Meriden Square in Meriden, Conn.," Welcome adds. Both projects are joint ventures. Homart and JMB are partners in the Atlanta project, which has yet to be named. St. Louis-based MayCenters is Homart's partner in Meriden Square.

In addition, Homart is beginning work in north Houston on The Woodlands, a joint venture with locally-based Woodlands Development Corp. Approvals have just come in for a center in Glendale, Ariz., a joint venture with Phoenix, Ariz.-based Westcor Development and Dallas-based JCP Realty. ■



***Homart, which opened New Park Mall,** left, last year, is continuing new construction as is Melvin Simon & Associates with Mall of America, right.*

CROWN AMERICAN

Crown American

Centers opened in 1991

Bradley Square, Cleveland, Tenn.—500,000 sq. ft.
Francis Scott Key Mall, Frederick, Md.—100,653 sq. ft. expansion
Martinsburg Mall, Martinsburg, W. Va.—600,000 sq. ft.
Mount Berry Square, Rome, Ga.—600,000 sq. ft.
Oak Ridge Mall, Oak Ridge, Tenn.—943,528 sq. ft.
The Plaza at Biltmore Square—Asheville, N.C.—171,647 sq. ft.
South Mall, Allentown, Pa.—50,000 sq. ft. expansion

Source: Crown American Corp.

If Frank Pasquerilla has his way, the local regional mall may start looking quite different. Rather than being the retail heart of a community, the mall may become the focus for a good deal more, all in the name of drawing customers.

"There are a lot of changes occurring in the mall industry. Traffic is down in the malls. That means you have to make it more attractive to make people come in," says Pasquerilla, chairman of Johnstown, Pa.-based Crown American. The firm opened more than 3 million sq. ft. of new space last year, ranking it second in the survey.

"To do that means going beyond retailing. Provide health care facilities, libraries, offices, community rooms to make a mall attractive. Health care is very important to the concept of a mall today. The malls of tomorrow will be quite different from what they were yesterday," he says.

He suggests that clinics that are offshoots of hospitals easily can be added to a mall tenant mix.

"We have to gear ourselves to what the public wants today. We have to change our attitudes as mall developers to give the customers what they want," he says.

Creating new uses for a center can be one way of keeping a corporation busy during a very slow period.

"We overbuilt this industry too fast and too much. Our problems were created by developers doing too much too soon," Pasquerilla says.

"As far as we're concerned, there are no new starts or projects this year or next year. I'm looking for a turnaround in 1995, if it comes," he says.

Several expansions are on the board, as well as renovations for several Sears anchors.

"We have a lot of projects we can expand with anchors and expand the anchors. The name of the game is expansion," he says. ■

WESTERN DEVELOPMENT

Western Development

Centers opened in 1991

Gurnee Mills, Gurnee, Ill.—2,100,000 sq. ft.

Source: Western Development Corp.

Because of the now-infamous credit crunch, there will be a slight pause in the "Milling" of America.

The opening of Washington, D.C.-based Western Development's 2.1 million-sq.-ft. Gurnee (Ill.) Mills will be followed by an expansion of the existing Potomac Mills. But announced projecis in Michigan and California are awaiting financing.

The lack of funds certainly isn't for lack of sales, reports Patience O'Connor, a spokewoman for the firm.

"Gurnee is doing exceptionally well, and is ahead of criteria on all fronts," she says. "The other Mills projects also are doing well.

The recession isn't solely responsible for their success.

"Because of the recession, people continue to look for values. But there is a whole market of consumers who continue to shop. They may be spending less, but they are shopping. Couple that with tour groups, and the centers are exceeding projections," O'Connor says.

While home-related goods sold well before the end of 1991, apparel has made a comeback in the early part of this year, O'Connor reports.

Reports published at the time of Gurnee's opening indicated that Western was struggling financially.

"The company was facing the same kind of financial struggles that all companies were facing, primarily getting financing for projects," O'Connor says.

As a result, other projects are on hold. Ontario (Calif.) Mills has store commitments, but construction is blocked by lack of funds. Auburn (Mich.) Mills also won't get underway until financing has been put in place. In the meantime, Western has begun the expansion of its prototype Potomac Mills in Daly City, Va.

J. C. Penney, Phar-Mor, Spiegel and Marshalls will join the center in spring 1993. ■

GENERAL GROWTH COS.

General Growth Cos.

Centers opened in 1991

Fox River Mall, Appleton, Wis.—265,000 sq. ft. expansion
Mall at Green Hills, Nashville, Tenn.—114,500 sq. ft. expansion
Oakwood Mall, Eau Claire, Wis.—160,000 sq. ft. expansion
River Hills Mall, Mankato, Minn.—680,000 sq. ft.
Southdale Center, Edina, Minn.—660,000 sq. ft. expansion
Valley Mall, Harrisonburg, Va.—114,000 sq. ft. expansion

Source: General Growth Cos.

General Growth may have to think about temporarily changing its name. While the firm ranks seventh on this year's list, new development is slowing down.

"We have nothing ahead of us at the moment," says Martin Bucksbaum, chairman of the Des Moines, Iowa-based developer. The firm opened Grand Traverse Mall in Traverse City, Mich., in March.

General Growth has held on to land for years, waiting for the right time to develop. But these days developers can't afford foresight. Most firms couldn't take advantage of relatively low real estate prices to stockpile land for future development.

"In the past, developers often had institutions to help. That is no longer the case. Nobody wants to talk about real estate. They've all been hurt, and don't understand that this is a cyclical business," Bucksbaum says.

He isn't even referring to new development. "I'm talking about money to continue to care for existing projects, do some trading and acquisitions."

Overall, though, Bucksbaum believes in the industry's future. "Good malls with decent department stores will continue to hold their own," he says. ■

The Widewaters Group

DEVELOPMENT UPDATE

5786 Widewaters Parkway, Dewitt, NY 13214

Webster Square
Rochester, NY
GLA: 200,000 sq. ft.
Anchors:
• K Mart
• Hegedorn's Supermarket

Lakewood Village Center
Jamestown, NY
GLA: 80,000 sq. ft.
Anchors:
• Quality Market
• Fay's Drugs

Roseland Center
Canandaigua, NY
GLA: 200,000 sq. ft.
Anchors:
• Ames
• JC Penney
• P&C Supermarkets

Watch for our new developments in Presque Isle, ME and Fulton, NY.

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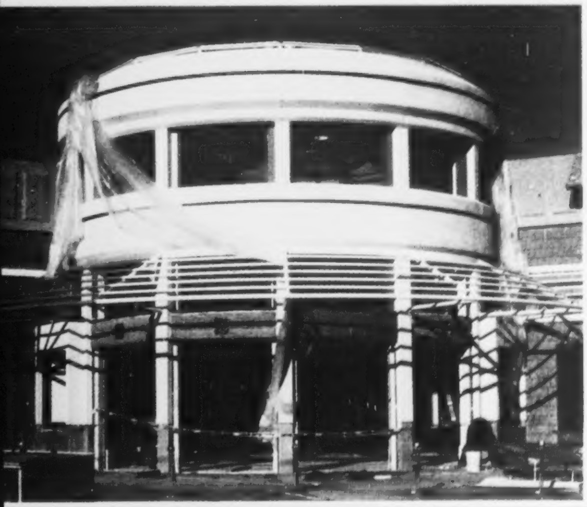
or visit us at 1229 Twelfth Avenue — ICSC Convention, Las Vegas.

For more information circle 40 on reply card



***Construction was planned** to cause minimal disruption.*

The new entrance will also make it more accessible for the 30,000 employees at the nearby Warner Center office complex to enter the mall for lunchtime eating and shopping.

In addition to the anchors, existing tenants such as Laura Ashley, Eddie Bauer, Mondi and Williams-Sonoma will be joined by other upscale operators such as Lenardi, an Italian shoe store; Hold Everything, Williams-Sonoma's retail execution of its popular mail order catalog; and Tibles, a gourmet popcorn and candy shop. According to Pecar, Ann Taylor will shortly relocate to a larger and more visible space.

Adds Katherine VanDeusen, director of leasing, "Ann Taylor had 2,800 sq. ft. and will take over 4,500 sq. ft." VanDeusen estimates the center is about 60% leased at this time. Among the other new tenants are Joan and David, FAO Schwarz and Coach.

The renovated center does not have a cinema. "We've found that is not our customer," says Pecar.

Renovation was critical for The Promenade's future. "There are two major reasons to remodel," says Pecar.

"To maintain new customers and get new stores. In California there is a mall every six miles, so it is important to keep up with the times and get new tenants." ■

BALKING PAST CAM AND RENT

RETAILERS SEEK TO CONTROL PASS-THROUGH FEES

A major chain store signs a lease for $12 per square foot to be at Anywhere Mall, with $2.00 per square foot CAM charges and additional fees for the marketing fund, taxes and insurance. At least that's what the leasing agent thinks the company will pay.

A few years later, the center management renovates the mall, passing along a percentage of the costs. An administrative charge is added to the rent. The retailer is now paying the developer nearly twice the rent originally agreed upon.

When it comes to landlord fees, retailers are rapidly learning that rent isn't everything. Neither is common area maintenance. And some retailers may be getting just a little irritated about it.

Call them pass-through charges, capital improvements, taxes, whatever, retailers are finding that fees over and above their rent and CAM charges are rising rapidly. Extra charges levied on tenants are now starting to approach the minimum rent agreed upon in some leases. And at least one retailer is starting to do something about it.

Prior to the 1980s, a retailer might typically have negotiated a minimum rent against a 4% or 5% percentage, with a few ancillary charges.

"With taxes and snow removal, you might be paying somewhere in the neighborhood of $3.50 or $4.00 per square foot. The retailer might agree to pay the next quarter increase and the landlord would take it after that. There was a degree of sanity to the process," says Marty Sherman, senior vp of Cincinnati-based U.S. Shoe.

In the last few years, however, developers began adding a 15% administrative surcharge for the cost of running the shopping center, Sherman relates. But it didn't end there.

"If you check in the lease, you'll find that many fees should be in the 15% charge, but now show up somewhere else. So you're being charged for the same service twice," he says. This can include the hiring of an outside management firm, or capital improvements such as additional foliage or restripping the parking lot. It all

Median Charges by Region
(super regional malls, dollars per square foot of mall GLA)

	Minimum Rent	CAM	Property Taxes	Insurance	Utilities	Other
Northeast	$11.04	$3.30	$1.40	$0.20	$0.91	$0.82
Southeast	13.58	3.08	1.13	0.16	2.34	1.23
Midwest	10.93	3.01	1.34	0.08	2.32	0.51
North Central	9.34	1.91	NA	NA	4.17	NA
Southwest	10.44	2.95	1.26	0.18	2.00	1.57
Far West	11.72	2.95	0.83	0.12	1.66	0.22

Source: *Dollar & Cents of Shopping Centers 1990*, Urban Land Institute begins to add up.

"In some cases, the ancillary charges such as CAM, taxes and other extra charges can total 70% of the minimum rent," Sherman says.

A $10 rent that has become $17 with the extra charges can go up from there. The key is in the dreaded phrase, included in most leases, "including all of the following, but not limited to . . ." Eventually, the monthly rate can approach the point where a store can no longer earn a profit.

Equitable Real Estate, *owner of Phipps Plaza, above, is working with retailers to control extra charges.*

This is especially true in difficult economic times. "In the regional malls, developers will charge the base, a percentage of the gross receipts and sometimes extra charges. But in a recession, there isn't too much that some retailers can give," says Charles Aug, president of New York-based brokerage Garrick-Aug Worldwide.

Even large, successful chains are feeling the pinch. Stores have to justify what can often be a high investment in construction and operation.

"We can only live with a certain occupancy charge. We cannot give a developer a certain rent and then have that increase substantially. There are no blank checks any more," Sherman says.

Sherman is not alone. Other major retailers reportedly are balking at the increases in extra charges, making the usually difficult process of lease negotiation even more so.

"In general, tenants have become much more aware of frontage and economics and shopping center economics. They are now in a better position to negotiate," says Ross Glickman, vp at Chicago-based JMB Retail Properties.

For their part, developers insist that the additional charges are far from arbitrary. They, too, are squeezed by the recession.

"Our profit line is under attack, and one of the largest expenses is occupancy costs," says Michael Mayer, vp-retail asset management group at Equitable Real Estate Investment Management, Atlanta.

"With the number of retail bankruptcies, we now have fewer retailers in the short term. Our costs are spread out over a smaller pool," Mayer explains.

Some of the extra charges are simply beyond developers' control, Mayer says.

"One of our largest costs is real estate taxes, and we don't control it. City governments are under increasing financial pressures, and they search for the most politically expedient way to increase taxes," Mayer says.

Even so, developers are fighting city hall whenever practical, says Daryl Mangan, executive vp-retail asset management group at Equitable Real Estate.

"We are working extremely hard with tax attorneys to review and appeal wherever we're being unfairly valued," he says.

Whatever the reason behind the charge, retailers know what they can or can't pay.

"We're starting to tell developers, 'We can only live with a certain occupancy charge. Put the numbers in whatever column you want.' We're going to try to blend the extra charges and minimum rent into one charge," Sherman says.

Another method is to negotiate a cap rate on the ancillary charges. "You have to take a look at the ancillary charges, and put some degree of finality on them," Sherman says.

Developers are being careful to keep extra charges to a minimum, Mangan says. The firm utilizes the more cost-effective marketing/promotion fund rather than require its tenants to belong to a merchants association, for example.

"We focus wholly on getting the biggest bang for the buck. The marketing fund can leverage the costs of the TV spots," he says.

Other costs also are kept as low as possible, Mangan maintains.

"We certainly don't want to spend any more than we need to. We've been investing in new materials that are easier and less costly to maintain," Mangan says.

Despite the greater negotiation now involved with major tenants, deals are being done.

"This has not hindered our ability to make deals. We have taken the position that we will help tenants look more closely at ancillary charges," Glickman says.

The most important thing is to work out as many of the details in advance, everyone agrees.

"We sit down with key developers and put it forward for discussion. We do a lot of homework on our numbers and share them," Sherman says.

And when sales pick up, so will everyone's mood, Aug believes.

"It's a tough retail environment right now. When the economy starts improving, retailers will have less concern over the extra charges," he says. ■

need of small retailers for greater POS functionality.

Certainly, this need was perceived at Seville Florist, an independent floral shop in Evanston, Ill.

Like many retailers its size, Seville had an ECR and a separate VeriFone terminal at the point of sale. Then, last September, the store accepted the opportunity to test the latest product from VeriFone's SuperSystem Division—the Gemstone Diamond Retailer, VeriFone's first major foray beyond its traditional transaction terminal niche.

Tracy Tennison, the store's manager, says the Gemstone product integrates the functions of a transaction terminal, printer and ECR into a single unit, saving counter space and eliminating the errors associated with the double entry of transactions. Like VeriFone's traditional terminals, it provides out-of-the-box connectivity to networks.

"The machine has cut our end-of-day reconciliation time in half," Tennison says. "A report can be generated straight from the printer which has all the day's sales itemized.

"The itemization will show, for example, what was a delivery charge, what was non-taxable and what was an outside order from FTD. That helps tremendously with our bookkeeping."

The Diamond Retailer includes one megabyte of battery-backed memory, a 65-key keyboard with 20 customizable "hot" keys, a two-line by 20-character clerk display, a cash drawer, two connectors for optional peripherals such as a billboard display, three connectors for third-party peripherals such as scanners, and a memory card port for installation of new applications or upgrades. Reseller prices range from $1,500 to $2,300 per unit.

The product is the SuperSystem Division's third major offering. The first two, introduced in 1991, were called the Gemstone Sapphire and the Gemstone Emerald.

Architecturally very similar to the Diamond, the Sapphire offers more memory and input/output ports. It has been popular with gas stations. The Emerald, meanwhile, has been specifically marketed to the health care industry.

Through remote diagnostics, the units can be reprogrammed by VeriFone over phone lines, thus minimizing downtime for the small operator "who may not have an MIS staff," Narasimhan says. ■

QR TAKES STRONGER FOOTHOLD

38% OF RETAILERS SUPPORT THE STRATEGY

Retailers' support of the strategy known as Quick Response is continuing to rise.

According to the fourth annual barcode/EDI/QR survey prepared by the TRADE/Retail & Distribution Services group of Deloitte & Touche, 38% of retailers have now implemented or plan to implement QR programs.

That's up from 33% of respondents who indicated support for QR the previous year, the survey's findings showed.

"Each year, our survey results indicate that the technology is taking a more significant foothold in the retail industry," says William Blumberg, a principal of the TRADE retail group.

The survey also shows that retailers' commitment to QR matches a parallel commitment to scan barcode marked goods and to use Electronic Data Interchange (EDI). Among companies indicating commitment to QR, 44% said they are now scanning barcode marked goods and 46% said they are using EDI.

The survey was conducted during the fall of 1991. It was based on responses to questionnaires mailed by the National Retail Federation to its members and other key retailers, including department stores, mass merchants and specialty chains. The response rate was approximately 15%.

About 58% of the responses came from retailers with sales under $50 million.

Respondents to the survey agreed overwhelmingly that senior management's commitment is a critical factor in the successful implementation of a QR program. Some 66% of respondents saw this as the single most critical factor, followed by supporting systems (10%) and vendor commitment (8%).

In addition, 70% of respondents cited better customer service as the most important benefit they expected to gain from a QR program. Also considered important were improved bottom-line productivity (17%) and increased inventory productivity (9%).

More than 76% of respondents indicate they currently scan or plan to scan barcode marked merchandise, compared to 70% in the previous year's study. Most exceptional is the increase in the number of small retailers who say they are committed to scanning—75% compared to the previous year's 52%.

Apparel specialty retailers also show a marked increase in their interest in scanning—70% compared to the previous year's 48%.

Exhibit 1. Commitment to Quick Response (QR)

Have you implemented or do you plan to implement QR programs?

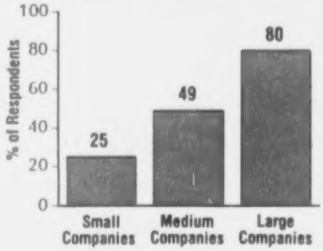
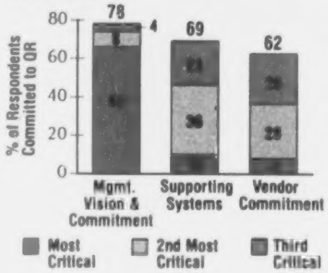


Exhibit 2. Critical Success Factors to QR

What are the three most critical success factors in becoming a QR company?



Findings also show an increase in vendor partnership programs. Thirty-seven percent of respondents said they have established or plan to establish UPC programs with vendors, compared to 33% the previous year.

While the majority of these programs are initiated by retailers, one-quarter of the respondents with UPC programs already in place say their programs have been jointly embarked on by both retailer and vendor.

The number of retailers who have implemented the scanning of internally prepared barcode tickets is on the rise, growing to 39% of respondents from 32% the previous year.

All of the large and 73% of the medium-size companies say they will be scanning internally prepared barcode tickets by the end of 1992.

Scanning at the point of sale has become practically a must for retailers. Seventy-two percent of respondents said they scan or plan to scan at POS, up from 62%.

The use of price lookup (PLU) has increased most significantly among specialty apparel retailers, with 51% of respondents in this segment citing usage, compared to 42% in the previous year's survey.

Overall, only 31% of respondents this year said they have no plans to use PLU, down from 37% last year.

Laser guns continue to prevail as the technology of choice for scanning, but 12% of respondents using them have also installed some other type of scanning device, most often wands.

Two-thirds of companies without plans to implement scanning say their major obstacle is the investment cost of POS scanning equipment. One-third say the main barrier is the perception that management is not committed to scanning.

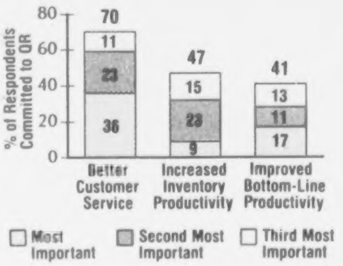
Nearly all respondents committed to scanning said they use or plan to use barcoding for non-POS functions, most often for inventory taking and warehouse functions. A number of retailers said they are using barcoding to support the taking of permanent markdowns.

More than 20% of respondents have implemented EDI, a significant increase over the 15% who indicated doing so in the previous year's survey. However, the overall commitment to EDI has slightly declined, apparently due to respondents' perceptions that investment costs are escalating and there is a lack of vendor commitment.

Some 50% of survey respondents who use EDI say they are using it to share sales information with vendors. Among the most important advantages of implementing EDI, respondents indicate, are shorter re-order fulfillment cycles and reduced inventory levels. ■

Exhibit 3. Key Benefits of QR Programs

What are the three most important benefits of QR to your company?



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RETAIL SALES UP SLIGHTLY IN MARCH

WEAKNESS ATTRIBUTED TO SHIFTING DATE OF EASTER

Sales of the nation's top retailers took a breather in March, following two strong increases in January and February.

According to Michael P. Niemira, vp of Mitsubishi Bank's New York-based economic research department, overall comparable industry sales posted a meager 0.8% year-to-year increase in March, compared to 10% in February and 9% in January.

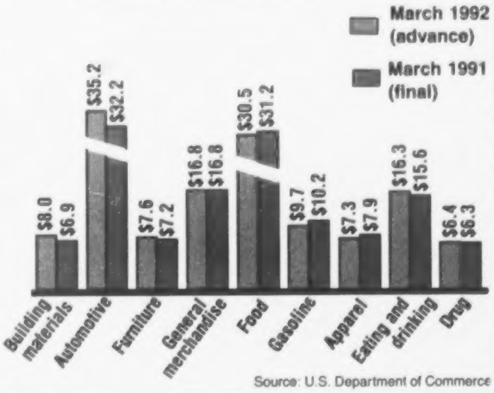
"Nonetheless, nearly every retailer put a positive spin on their report, suggesting that the weakness was mainly a comparison problem," Niemira says. "The later Easter this year [April 19] compared to last year [March 31] means that pre-Easter sales won't show up until mid-April this year."

Some retailers also said that cold weather at mid-month hurt their sales of spring apparel. On the other hand, J. C. Penney's credit card promotion boosted its sales considerably in March.

A big surprise came from The Gap, which reported that its same-store sales fell 3% in March. Since the recession began, The Gap had been one of retailing's most solid performers.

MARCH SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	March '92 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$3,930,000	+18.0	+ 6.0	$7,539,000	+25.0	+12.0
Kmart	3,149,969	+ 4.7	− 0.7	5,470,319	+ 6.9	N/R
Sears	3,044,606	+ 2.2	+ 3.2	5,099,706	+ 2.6	+ 5.5
Penney	1,107,000	+10.3	+ 9.5	1,822,000	+10.8	+ 9.7
Dayton Hudson	1,450,000	+ 9.6	+ 1.9	2,470,000	+10.9	+ 3.6
May	852,000	− 0.3	N/R	1,480,000	+ 3.2	N/R
Melville[1]	879,220	− 3.6	− 6.2	2,239,351	+ 2.5	+ 0.5
Walgreen[5]	622,050	+ 5.6	+ 2.2	1,822,794	+10.2	+ 7.2
Federated	606,400	N/R	+ 3.3	N/R	N/R	N/R
Woolworth	478,000	−13.3	− 9.9	827,000	− 8.3	− 4.8
The Limited	538,100	+ 3.0	− 8.0	948,100	+ 8.0	− 3.0
Circuit City[2]	212,600	+17.0	+ 3.0	212,600	+17.0	+ 3.0
The Gap	239,000	+12.0	− 3.0	385,000	+16.0	+ 1.0
Mercantile	242,800	+ 4.5	− 7.9	396,100	+ 8.1	− 5.0
Neiman-Marcus Group[3]	160,400	− 0.4	− 4.6	1,258,800	+ 1.6	− 2.5
Venture Stores	152,100	+15.9	+ 3.4	246,200	+15.7	+ 6.3
Edison Bros.	121,400	− 1.8	N/R	213,000	+ 3.6	N/R
Rose's	93,068	−14.5	−13.0	202,624	− 4.3	− 3.5
Jamesway	72,090	+ 3.0	+ 3.0	116,755	+ 6.0	+ 5.0
Charming Shoppes	101,000	+10.0	+ 1.0	170,200	+14.0	+ 5.0
Ross	88,000	+ 9.0	N/C	141,000	+ 6.0	− 3.0
Value City[3]	54,700	− 1.4	− 5.7	454,500	+14.4	+ 8.9
Dollar General	74,300	+17.4	+12.5	123,800	+21.4	+16.6
Best Buy[4]	96,000	+63.0	+24.0	96,000	+63.0	+24.0
Gottschalks	26,900	+ 8.8	− 3.5	44,500	+ 5.1	− 3.7

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R = not reported N/C = no change

Source: Company reports

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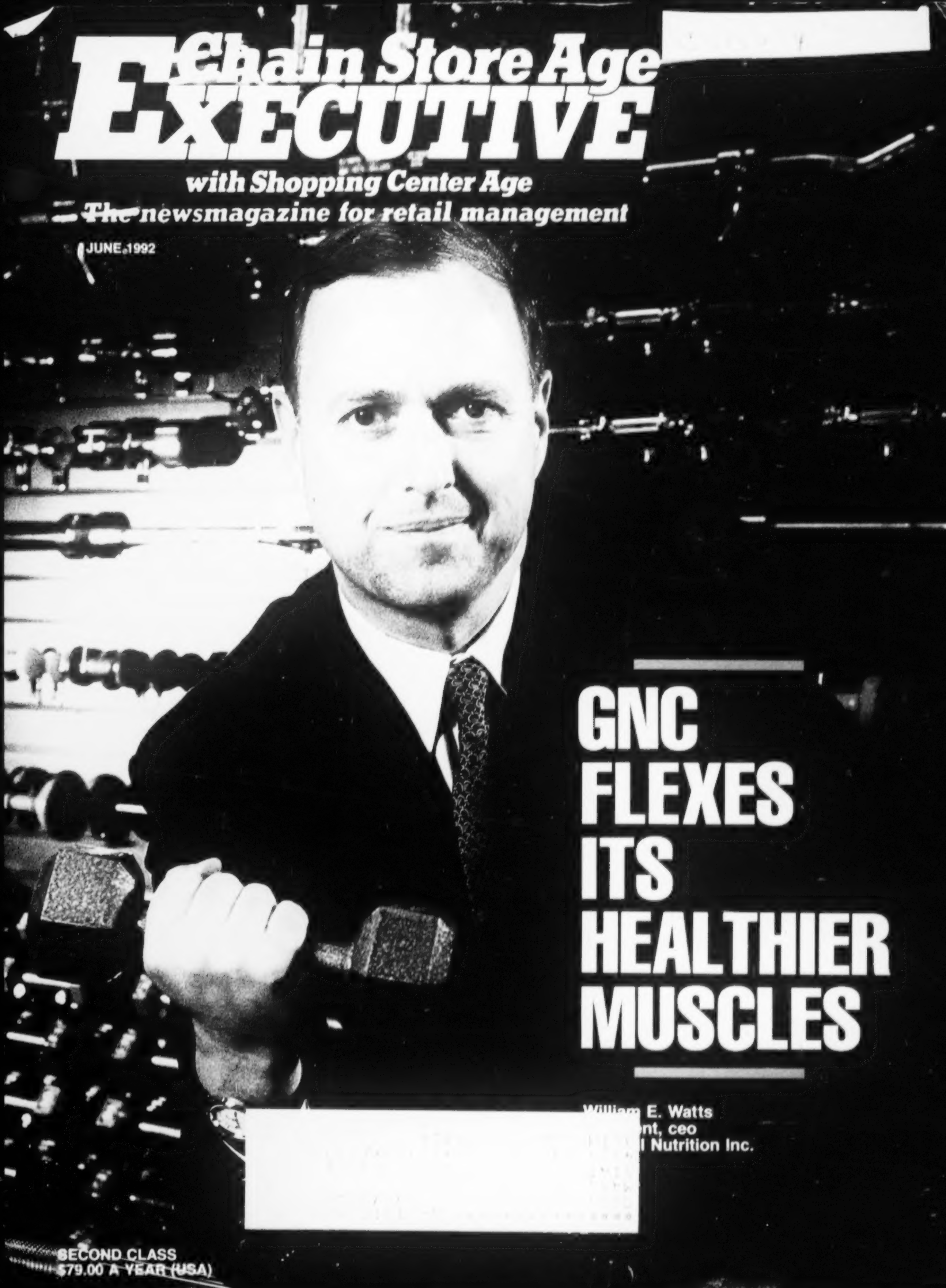

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APRIL SALES POST SOFT REBOUND

CHAINS BENEFIT FROM LATER EASTER

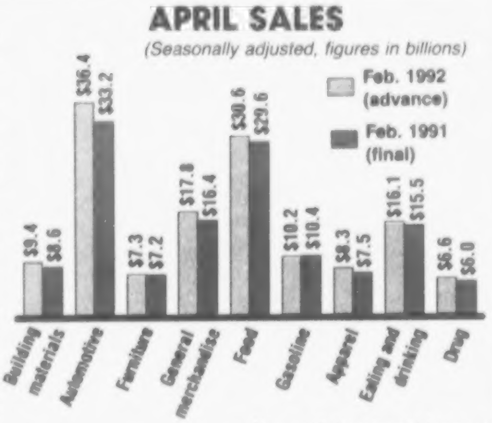
The nation's largest retailers reported slightly improved sales for April, essentially offsetting the dip that had unsettled economists in March.

Michael P. Niemira, vp of Mitsubishi Bank's New York-based economic research department, said that nearly all retailers were affected by the later Easter this year (April 19) compared to last year (March 31), which boosted April sales performance at the expense of March sales.

Offsetting the Easter sales bonus, he says, was the adverse impact of cool weather on sales of seasonal goods. Severe wind and hail storms in Kansas City, Mo., and hail and flooding in Houston exaggerated the weakness in those markets.

On the other hand, Niemira says, the Los Angeles riot—including its spill-over impact on other cities—and the Chicago flood were only minor depressants to aggregate store sales.

The March-April weakness in sales followed a surge in January-February, and thus was disappointing even adjusting for calendar quirks, Niemira says.



APRIL SALES

(Seasonally adjusted, figures in billions)

Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	April '92 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$4,111,000	+26.0	+13.0	$11,650,000	+26.0	+12.0
Kmart	2,796,000	+10.9	+ 5.5	8,266,000	+ 8.1	+ 2.8
Sears	2,439,031	− 3.9	− 2.1	7,673,071	+ 0.5	+ 2.8
Penney	1,285,000	+11.5	+14.5	3,793,000	+10.5	+12.0
Dayton Hudson	1,180,000	+11.1	+ 3.0	3,650,000	+11.0	+ 3.4
May	815,700	+11.2	+ 5.9	2,296,900	+ 5.9	+ 1.2
Melville[1]	782,074	+13.5	+11.2	3,021,425	+ 5.1	+ 3.0
Walgreen[5]	632,750	+16.6	+12.5	2,454,495	+11.7	+ 7.8
Federated	500,500	− 5.0	+ 0.7	1,571,000	− 5.0	+ 4.4
Woolworth	422,000	+10.0	+14.8	1,250,000	− 2.8	+ 1.0
The Limited	467,500	+16.0	+ 7.0	1,416,000	+10.0	N/C
Circuit City[2]	199,700	+11.0	+ 2.0	N/R	N/R	N/R
The Gap	204,000	+30.0	+13.0	589,000	+20.0	+ 5.0
Mercantile	198,300	+17.3	+ 3.1	594,400	+11.0	− 2.4
Neiman-Marcus Group[3]	133,600	+12.2	+ 7.4	1,392,500	+ 2.6	− 1.7
Venture Stores	117,800	+15.5	+ 5.2	364,000	+15.6	+ 5.9
Edison Bros.	113,900	+20.8	N/R	326,900	+ 9.0	N/R
Rose's	108,265	− 2.6	+ 3.3	391,036	− 6.8	− 1.2
Jamesway	65,721	+ 4.0	+ 4.0	182,472	+ 5.0	+ 5.0
Charming Shoppes	92,300	+25.0	+14.0	262,500	+18.0	+ 8.0
Ross	81,000	+21.0	+11.0	222,000	+12.0	+ 2.0
Value City[3]	54,400	+22.9	+17.9	N/R	N/R	N/R
Dollar General	58,900	+35.8	+30.3	187,500	+27.3	+22.2
Best Buy[4]	72,000	+44.0	+16.0	168,000	+54.0	N/R
Gottschalks	22,700	+10.1	+ 2.5	67,200	+ 6.8	− 1.7

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R = not reported N/C = no change

Source: Company reports

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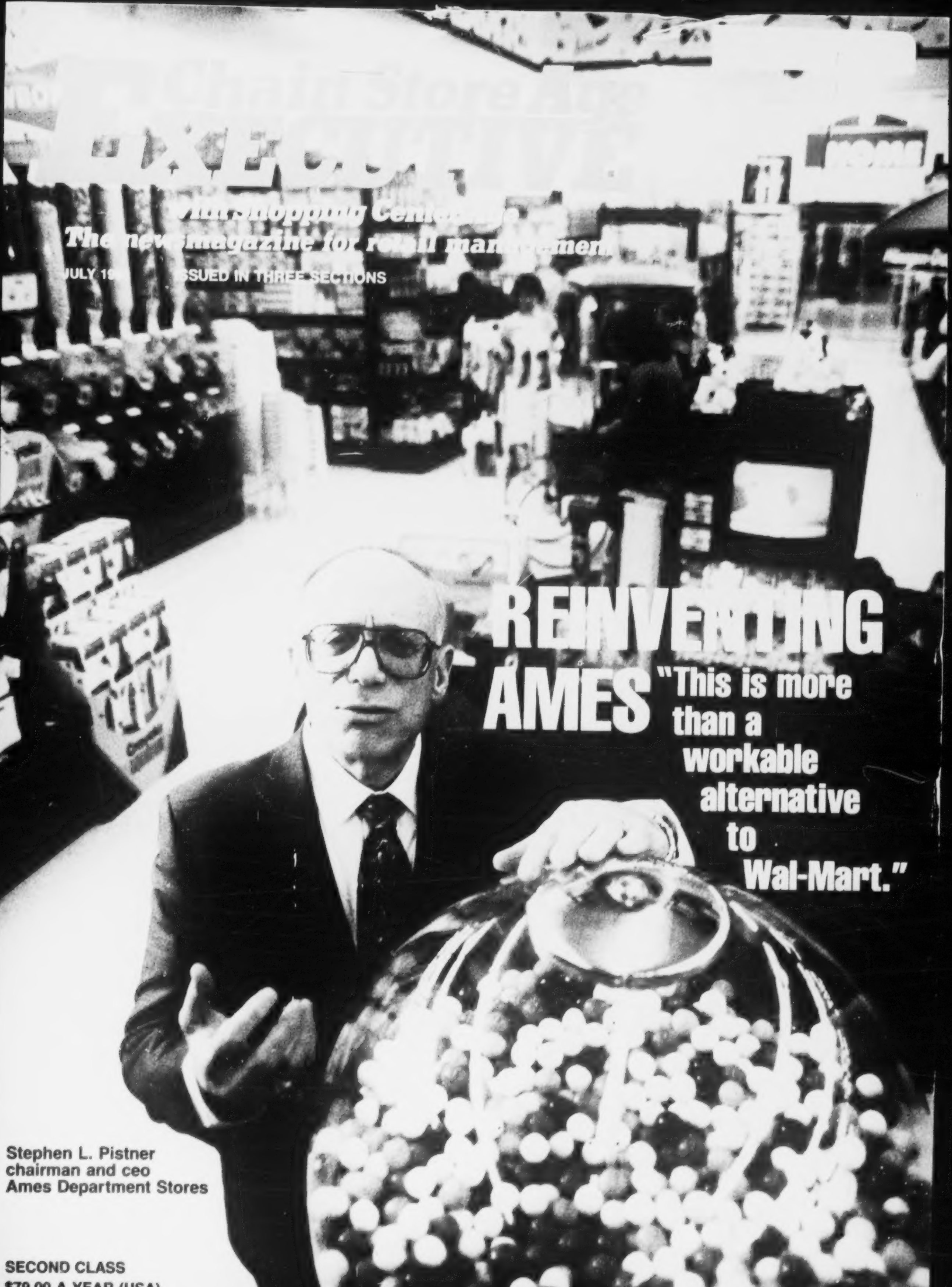

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Dallas-based Weitzman Group, began working with Sfuzzi restaurants long before the ground floor. The original partners came to him about sites before they had left their jobs.

"We met on a Saturday and determined a good location. It was immediately successful. They opened another, and we worked on them with a joint venture structure," he says. The firm continues to represent the restaurant in its nationwide expansion.

AMERICA'S SPORTS HEADQUARTERS

While not utilizing its brokers *for lease negotiation, SportsTown has expanded beyond its Atlanta base to Texas and beyond.*

"You do a lot of things where you become a de facto real estate department. You have all this energy," Weitzman says.

But energy can be misplaced, he warns, leading to a quick case of too much, too soon.

"It's exciting to grow a new concept, but also very difficult. It becomes a job of managing talent and keeping it in balance," Weitzman says.

Epsteen tells of an unnamed chain that simply grew too quickly for its own good. By the time the owner was ready to sell the chain, it had become too unwieldy for any purchaser.

"Timing can make a million-dollar difference," he says.

First, the broker has to convince both the retailer and the landlord to take a chance. With so many areas with depressed real estate values, the entrepreneur has an excellent opportunity to give his business a shot.

The landlord climate may be more receptive than in years. Developers, desperately looking to fill disturbing vacancies, are more willing to try a new chain—for the right price.

"You have to negotiate. The landlord will have to learn more about the company," says Richard Sapkin, managing broker for Denver-based HC Properties.

The broker's credibility with landlords through previous deals helps in selling the unknown.

"But because of our reputation and our involvement in retail, we have a lot of credibility. When you're looking at a concept, we'll have an advantage. We can help those retailers more," Buonanotte says.

But the wrong decisions can hurt those retailers more, as well. While a large chain can carry an underperforming unit for a time, an entrepreneur needs every dollar he can get.

"If a company expands from one store to two, and one fails, that company is out of business. The room for error is a lot less," Sapkin says.

But the lifeblood of future retail lies in these chains, helped by their friendly neighborhood brokers.

"It really isn't hard to find up-and-coming chains. There's no end to the mom and pop; the entrepreneurial retailer will continue to come up with new ideas," Weitzman says.

And those chains will continue to want the help of the local broker.

"We want to know what's going on in our target markets. Our brokers can tell us about things that haven't even happened yet," Haas says.

"It's certainly the most fun and exciting part of the business. It's not as financially rewarding as an Office Max deal, but it is more emotionally rewarding," Buonanotte says. ■

—Debra Hazel

THINKING LIKE THE TENANT

KNOWING RETAILERS' NEEDS VITAL TO BROKERS

More and more these days, brokers are not just representing retailers while being paid by developers. They're thinking more and more like retailers, and doing more and more for their tenants.

That may be one of the greatest shifts that has occurred in the ever-changing retail brokerage business.

From knowing the psychographics of a market to teaching shopping center owners about their tenants to advising retailers on the permit process, brokers are becoming more entwined than ever with their retail clients.

"The age of the broker definitely has come," says Gerald S. Divaris, president of Virginia Beach, Va.-based Divaris Real Estate.

Going beyond the demographic numbers is the first, and perhaps most important aspect of brokerage.

"We know the demographics and the psychographics, what's available, what's in trouble," says Don Krieger, managing director of Terranomics Retail Brokerage, San Francisco.

That can be vital to retailers today, who are not settling for the secondary and tertiary sites they may have jumped at just a few years ago.

"Today retailers want A sites, and there aren't too many of those available. You need someone there constantly looking for those sites," Krieger says.

Once those sites are located, the broker often has to educate the developer about the tenant, Divaris notes, adding teacher to the roles of the broker. Properly informing the landlord about the retailer entails understanding the retailer's point of view.

"We now have many brokers with a retail background," Divaris says.

Institutional owners, particularly, need to be educated about the realities of the retail market. Sometimes the relationship doesn't always work out, says Stephen Bittel, president of Miami-based Terranova Corp.

"We worked with an out of town institutional client with dreams of rents not possible in the market. We resigned the account," he says.

The fact that owners and developers are listening is a major attitude turnaround, in a short period of time.

"Up until three years ago, most owners and developers of retail didn't want to utilize brokers. The business has grown significantly as properties have sat empty," Bittel says.

The growth of institutional ownership of centers also has led to greater utilization of brokers. Downsizing at development firms has led to a greater reliance on outside brokers.

Developers are not the only companies examining their leasing staffs closely. As retail chains downsize their real estate departments, they are hiring brokers and other specialists to perform those functions. As often as not, the brokerage firm ends up coordinating the efforts.

High and Low Total Rent Tenants in U.S. Community Shopping Centers

High Rent Tenants	Median Total Rent per Square Foot of GLA
Automatic Teller Machines	$25.00
Costume Jewelry	18.81
Cookie shop	18.00
Candy and nuts	18.00
Key shop	16.86
Film processing store	15.00
Athletic footwear	14.50
Formal wear/rental	14.20
Jewelry	14.20
Cameras	14.00
Low Rent Tenants	
Variety store	3.38
Discount department store	3.38
Junior department store	3.55
Supermarket	3.84
Superstore	4.48
Showroom/catalog store	4.81
Home improvements	4.82
Superdrug	4.88
Cinemas	4.91
Service station	5.30

Source: *Dollars & Cents of Shopping Centers 1990*, Urban Land Institute

It can be easy in some ways, difficult in others. Many leasing reps once worked for developers, and know the ropes of negotiating a deal, and what each side is looking for. But while the negotiating skills are similar, attitudes may not be.

"We need to retrain leasing people that the quickest deal isn't necessarily the best one," Bittel says. Filling a vacancy quickly with a tenant that won't last benefits no one.

Finally, one can never totally predict what kind of help a tenant will ask of his broker. Work may not end once the deals are made.

"While we're not asked to get permits, we will check on time frames and find the right people to process them," says Ed LaGuardia, senior vp-retail properties at San Francisco-based Grubb & Ellis's Retail Tenant Services Group.

The firm also will help clients customize computer software that will help them analyze markets.

"Chains really do want brokers to do more, and if we can be of assistance, we will. Our goal is to be there until opening, if necessary," LaGuardia says.

That attitude is the result of a shift on the part of the brokerage community.

"We're not a brokerage company, we're a real estate services firm. We're part of the fabric of the community. Brokerage is just one of our services," says Mark Tanguay, president of Tanguay Burke Stratton, Chicago. ■

NETWORKING MORE THAN A SOCIAL TOOL FOR BROKERS

Eventually, many chains want to grow beyond their home territory. That could mean trouble for their local broker, who knows his area, but not necessarily one hundreds of miles away.

Enter the brokerage network. From Chain Links to International Realty Resources (IRR) to the Retail Brokers Network, brokers around the country are banding together to serve ever-expanding retailers.

The networks are tailor-made helpful to the large national chains, who are expanding in several diverse markets at once.

"Tenants are trying to get the best representation in each market, and the network works exceptionally well with large companies. When you're looking at major markets, they're a more effective force—and more effective to compete with firms such as Grubb & Ellis and CB Commercial, which have a national retail affiliation," says Charles Aug, managing partner of New York-based Garrick-Aug Worldwide, and president of Retail Brokers Network.

The network connection can also help fledgling members build their business, says David Bossy, principal of Oakbrook Terrace, Ill.-based Mid-America Corp., who credits his Chain Links affiliation with helping his 8-year-old company to grow.

Education is perhaps the best fringe benefit of the networks, who hear about established chains' needs and new retailers from their peers.

"We will invest the time to educate [a fellow network firm] to serve one of our clients," says Gerald S. Divaris, president of Divaris Real Estate, Virginia Beach, Va.

But not all developers remain convinced. Some brokers note that a few retailers prefer to deal with the same people. Other firms have yet to ally themselves with an established network.

"Virginia is not that large, and I'm usually on top of things. Our plate has been so full, and I can refer clients to other brokers," says Tredway Spratley, executive vp of Richmond, Va.-based Sigma Development, who is not allied with any network.

CONSTRUCTION COSTS DOWN

BUT SPENDING RISES FOR OTHER PHYSICAL SUPPORTS

Reason for Selecting a Physical Supports Resource

	Interior lighting 1992	HAVC 1992	Metal fixtures 1992	Wood fixtures 1992	Floor maintenance 1992
Price (lower cost/lowest bid)	30.6%	16.3%	30.7%	32.4%	24.4%
Quality	25.0	11.3	26.7	25.7	17.1
Good service/available/can get them to service it	12.5	15.0	13.9	14.9	24.4
Comes within our specs/bids	2.8	2.5	3.0	12.2	2.4
Sturdy/dependable product/well made/reliable/long lasting	15.3	18.8	25.7	10.8	7.3
Good/ease of maintenance	—	6.3	—	—	—
Have had good luck with the merchandise/happy with their merchandise performance	1.4	—	—	—	2.4
Have been dealing with them for years	26.4	28.8	28.7	12.2	12.2
Have what I like/ have design I like	11.1	12.5	7.9	16.2	—
Same day/fast service	2.8	1.3	5.9	8.1	2.4
Delivery when we want it/on time	2.8	2.5	11.9	6.8	—
Deal with them on a national basis/have national account with the	1.4	11.3	1.0	—	2.4
See them in all our stores	2.8	—	2.0	1.4	—
Availability	2.8	1.3	3.0	—	—
Custom made/custom make what we want	1.4	—	2.0	12.2	—
Ease of assembly/use	—	—	6.9	1.4	7.3
Their product is universal/ interchangeable	12.5	11.3	14.9	—	—
We have our own people/ it's in-house	—	—	—	—	—
Good salespeople	1.4	—	—	1.4	2.4
Local company	2.8	2.5	7.9	10.8	7.3
Looks good	—	—	—	—	—
Other	9.7	10.0	9.9	1.4	12.5
No answer	1.4	1.3	—	2.7	22.0

Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

Budget-conscious retail companies kept a tight rein on construction costs in 1991. Discount stores, drug stores, supermarkets, home centers and apparel specialty stores reduced their expenditures for new building shells (including roof, floors and walls). Only department stores were unable to cut costs.

Discount stores, for example, cut their construction spending in 1991 to $22.92 per square foot from $28.77 a year earlier, while drug stores reduced their spending to $32 from $33.56.

Home centers cut their costs to $19.55 per square foot from $23.42 and apparel specialty retailers reduced spending to $32.89 from $36.45.

Department stores, on the other hand, increased their construction spending to $45.78 per square foot from $37.42.

These are some of the findings of the *Chain Store Age Executive* Physical Supports Census, an exclusive poll of major retail chains that annually surveys construction, fixturing and maintenance costs.

The poll, conducted by Leo J. Shapiro & Associates, Chicago, surveyed officials from 120 retail companies, divided among supermarket, department, drug, discount, apparel specialty and home center operators. Together, these companies represented 14,124 stores with a total sales volume of $78.7 billion in 1991.

While the chains surveyed each year varies, they represent cross sections of the retail community, allowing year-to-year comparisons to be made. Some of the chains participating in this year's survey were: Merry-Go-Round, Edison Brothers, Venture, Clover, Jordan Marsh, Strawbridge & Clothier, Hess's, Lowe's, Ernst Home Centers, Edward Hines Lumber, Medicine Shoppe Int'l., Drug Emporium, Eckerd, Revco, Kroger, Bruno's, H.E. Butt Grocery and Giant Eagle.

Physical supports: While retailers held the line in 1991 on building shell construction costs, they were not so fortunate with physical support systems and maintenance. The average cost of most items increased from the 1990 survey to this year. The only exception was fixtures, where the average price dropped from $8.33 per

Store Size Decreases for Most Retailers

	Discount store 1992	Drug store 1992	Supermarket 1992	Department store 1992	Home center 1992	Specialty apparel 1992
Existing stores (average gross square feet)	66,813	16,978	38,629	137,381	25,700	12,629
Existing stores (average selling space)	53,450	12,971	27,697	107,157	19,840	10,469
Stores opened 1991 (average gross square feet)	78,308	16,355	46,278	123,455	29,500	12,191
Stores opened 1991 (average selling space)	58,888	12,790	33,829	98,147	25,104	10,423
Cost per square foot to erect building shell 1991	22.92	32.00	33.47	45.78	19.55	32.89

Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

Average Life Span of Physical Support Systems (Mean Years)

	Discount store 1992	Drug store 1992	Supermarket 1992	Department store 1992	Home center 1992	Specialty apparel 1992
Flooring	11	11	12	10	15	7
Ceilings	21	18	13	27	14	16
Fixtures	10	13	12	6	13	8
Interior lighting	13	19	15	23	15	15
Interior signage	6	8	9	6	7	5
Roofing	17	40	17	30	15	14
Floor maintenance equipment	9	6	6	7	7	5
HVAC	14	24	18	29	15	36

Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

Average Cost Per Square Foot of Physical Support Systems

	Discount store 1992	Drug store 1992	Supermarket 1992	Department store 1992	Home center 1992	Specialty apparel 1992
Interior lighting	$1.08	$1.69	$1.17	$1.88	$1.00	$2.08
Interior signage (excluding art and photography)	0.81	0.66	0.86	0.82	0.63	0.41
Flooring	1.66	1.75	1.75	4.56	1.18	4.28
Ceilings	1.22	1.55	1.19	2.57	0.84	2.11
Fixtures	6.17	6.64	10.32	8.06	5.83	8.70
Floor maintenance	0.72	0.59	1.07	0.72	0.15	0.88
HVAC	1.41	2.34	1.79	2.09	1.38	2.18
Roofing	2.19	2.88	2.54	2.75	1.83	0.75

Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

square foot in 1990 to an average of $7.77 this year.

Retailers spent an average $1.46 per square foot for interior lighting, up from $1 a year ago. Not surprisingly, lighting costs were highest in apparel specialty stores ($2.08) and department stores ($1.88). Drug stores spent an average of $1.69 on lighting (up from 74 cents a year ago), followed by supermarkets ($1.17) and discount stores ($1.08).

Floor maintenance costs were also up. According to the survey, the cost of floor maintenance has jumped from an average 21 cents per square foot in 1985 to 65 cents today. Costs were highest for supermarkets ($1.07 compared to 22 cents in 1990) and apparel specialty (88 cents compared to 11 cents).

Cost for heating, ventilation and air conditioning (HVAC) systems increased to an average of $1.86 per square foot compared with $1.70 in 1990. Drug stores spent on average $2.34 per square foot, followed by apparel specialty ($2.18). But HVAC costs decreased for discount stores ($1.41), supermarkets ($1.79) and department stores ($2.09).

The average cost per square foot for interior signage in 1991 was 72 cents, up from 42 cents in 1990. Supermarkets averaged 86 cents per square foot, followed by department stores (82 cents).

As already noted, the survey showed a decline in fixture costs. Discount stores spent an average of $8.50 per square foot for fixtures in 1990. This year, the price dropped to $6.17. Drug stores cut their fixture costs from 7.50 per square foot to $6.64.

Construction preferences held fairly steady with last year. According to the survey, single-ply membrane roofs have become the roofing of choice for a majority (63.7%) of retailers. Built-up roofs (BUR) ranked second.

Vinyl and carpet were the most popular flooring choices, followed by concrete and quarry tile.

The survey revealed that the recession has affected the way a majority (53.7%) of retailers buy physical supports. Asked specifically what they were doing to get more from the manufacturer for their dollar, many chains reported they were seeking more bids, demanding better prices and exploring alternative manufacturers.

Store size: The average size of all stores opened during the 12 months prior to the survey (or presently under construction) was 44,026 sq. ft. (compared to 56,248 sq. ft. in 1990). Downsizing was apparent nearly across the board. The average new drug store dropped to 16,355 sq. ft. in 1991 from 29,216 sq. ft. in 1990, while supermarkets dropped to an average 46,278 sq. ft. from 54,795 sq. ft.

But not every retail category is convinced that smaller is better. Discounters opened larger units in 1991 than the previous year, averaging 78,308 sq. ft. per store compared to last year's average of 71,274 sq. ft. ■

RETAILERS TEST OPTIONS FOR JEWEL-BOX CDs

NEW PACKAGING STANDARD GIVES WAY TO VARIOUS FIXTURING IDEAS

CLASSICAL
CLASSICAL

***Phar-Mor uses the Lift** system to display CDs. The 'live' product is kept behind the counter.*

Like it or not, music store retailers will soon be forced to deal with the reality of a jewel-box-size only world. While store operators are still far from happy about the changeover, some predict that life after the longbox may not be that bad after all.

"We're a little nervous, but we feel confident that we can do as good a job without the longbox as we did with it," says Ken Chance, director of store planning and construction, Camelot Music, North Canton, Ohio, which operates approximately 320 stores.

The final nail was driven into the coffin of the controversial 6-in.-by-12-in. cardboard longbox by the National Association of Recording Merchandisers (NARM). In an about face, the group accepted the decision of the six major music manufacturers to adopt a new jewel-box-size packaging standard (5-in.-by-5½-in.) for all compact disc (CD) releases by April 1993.

Although the music manufacturers were careful to endorse a standard measurement and not a specific packaging format, it is widely accepted that the plastic jewel box—the accepted worldwide standard—will become the dominant packaging in the United States.

Phar-Mor: Most retailers have resigned themselves to the switch and are evaluating merchandising options to accommodate the smaller format. A few chains are even ahead of the game—Phar-Mor has equipped 220 of its music departments with a flip-through display system for jewel-box-size packages.

Under the system, which is provided by Lift Discplay, Edgewater, N.J., CDs are taken out of the package and kept in a locked storage counter behind the checkout. The empty jewel boxes are displayed on the selling floor in flip-through fixtures. Phar-Mor has been using the system for several years.

"We made the switch to Lift for the sake of practicality," says Paul Froehlich, spokesman, Phar-Mor, Youngstown, Ohio, which operates 294 stores. "The system made a lot of sense from both a security and space standpoint."

Phar-Mor plans to retrofit additional stores with Lift fixtures in 1992.

"The system has certainly served us well," adds Froehlich. "And the reaction of our customers has been positive."

The Lift system is particularly appealing to mass merchandisers because it is space efficient.

"We can fit more than 700 compact discs in up to a 4-ft. section," says Susanna Seirafi, marketing manager, Lift Discplay.

Phar-Mor has installed the full Lift system. But the company can adapt its product to meet retailers' specific needs, whether they be total refixturing or retrofitting.

Types of Fixtures Used

	Total 1992	Discount store 1992	Drug store 1992	Supermarket 1992	Department store 1992	Home center 1992	Specialty apparel 1992
Metal fixtures	89.3%	85.0%	85.0%	90.5%	95.2%	85.0%	94.7%
Shelving	90.9	95.0	80.0	95.2	100.0	80.00	94.7
Laminate	77.7	85.0	75.0	81.0	85.7	45.0	94.7
Gondolas	79.3	95.0	95.0	95.2	47.6	95.0	47.4
Wood fixtures	76.9	70.0	70.0	90.5	95.2	55.0	78.9
Small racks for accessories	71.9	80.0	75.0	57.1	90.5	50.0	78.9
Wall display units	80.2	80.0	75.0	61.9	100.0	75.0	89.5
Tables	71.9	90.0	40.0	90.5	95.2	30.0	84.2
Cases	73.6	85.0	75.0	100.0	95.2	35.0	47.4
Large racks for apparel	52.1	85.0	10.0	9.5	90.5	20.0	100.0
Glass cubes	38.0	60.0	30.0	14.3	85.7	—	36.8
Grid system	47.1	60.0	25.0	33.3	76.2	20.0	68.4
Showrooms	12.4	10.0	—	4.8	33.3	25.0	—
Mirrors	—	—	—	—	—	—	—
Rounders	—	—	—	—	—	—	—
Other	6.6	5.0	5.0	—	4.8	10.0	15.8

Note: Totals more than 100% due to multiple responses
Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

"You do not *have* to use the whole system," explains Seirafi. "The CD, for example, doesn't have to be kept behind the counter."

The cost of equipping a store with Lift fixtures varies according to the type of system used.

Camelot Music: Other alternatives are also being tested. Camelot Music has installed reusable, 6-in.-by-12-in. plastic keepers in some of its stores. Manufactured by Alpha Enterprises, East Canton, Ohio, the keeper fits into existing fixtures.

"We've had a great deal of success with the keeper," says Camelot's Chance. "We see it as a viable alterative for merchandising jewel-box-size CDs, particularly in existing locations."

Chance says one of the main advantages of the keeper is that it allows Camelot to use its existing bins.

"The keeper doesn't require refixturing, which is a big plus," he adds. "And it pops the CD up far enough so that people can read it. In addition, the size of the product provides a degree of security."

Under the keeper system, each CD must be popped into the keeper, which is later removed at the checkout and returned to the merchandising floor.

"It involves a little extra labor, but we think it is well worth the effort," Chance says.

The cost of the keeper varies according to the size of the order, ranging from 50 cents to 60 cents per piece. Alpha expects the price will come down with increased volume. ■

WOOD GIVES WAY TO VINYL

VINYL GIVES LOOK OF WOOD WITH LESS PROBLEMS

Type of Flooring Used

	Total	Discount store	Drug store	Super market	Department	Home center	Specialty apparel
Vinyl	80.2%	85.0%	80.0%	90.5%	95.2%	70.0%	57.9%
Carpet	60.3	70.0	45.0	14.3	95.2	45.0	94.7
Concrete	47.9	50.0	25.0	57.1	42.9	85.0	26.3
Quarry tile	43.8	55.0	30.0	52.4	76.2	—	47.4
Hardwood	27.3	5.0	10.0	19.0	71.4	5.0	52.6
Terrazzo	23.1	15.0	25.0	23.8	42.9	—	31.6
Marble	23.1	5.0	—	4.8	85.7	—	42.1
Ceramic tile	10.7	10.0	5.0	4.8	14.3	—	31.6
V.C.T./VC Tile/ Vinyl composition tile	5.0	—	—	9.5	4.8	10.0	5.3
VAT	0.8	5.0	—	—	—	—	—
Other	10.7	5.0	—	38.1	4.8	10.0	5.3

Note: Totals more than 100% due to multiple responses

Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

Wood flooring can look beautiful and provide a natural look and warm residential feeling to a store.

But if the store is a supermarket, natural wood floors won't last too long. The constant foot traffic and use of shopping carts will quickly wear out the surface. The floors also require constant maintenance to prevent warping from spillage.

To get the look of wood without the problems, Milan, Ill.-based Eagle Country Market is utilizing a vinyl wood product in its 57,500-sq.-ft. Country Club Hills, Ill., store. The new store opened in August 1991.

"We utilized a vinyl wood on the floor both for its durability factor and ease of installation," says Jack Houston, senior designer at Oakbrook Terrace, Ill.-based Schafer Associates.

The floor is Tajima Vinyl's Wood-Line, from Arlington Heights, Ill.-based Architectural Floor Systems.

The product comes in randomly sized planks, allowing for easy installation and replacement of worn units.

"The random length planks go down easily," Houston says.

Random sizing also gives more of a natural look, as real wood planks would be less uniform.

Perhaps most importantly, for both aesthetic and safety reasons, wear won't happen as rapidly, either.

"There is a much higher durability for running shopping carts over the floor. A natural wood would dent or scratch," Houston says. What began as a beautifully finished floor could rapidly degenerate into both an eyesore and a potential hazard.

Another natural element, water, was another factor in using the artificial wood. In fact, water is wood's greatest enemy.

"Water was our primary concern. It had to be a floor that could take water without danger of buckling," Houston says. The possibility of accidents, and subsequent lawsuits, due to a collapsed floor pointed strongly to using artificial materials.

So, too, does maintenance. Vinyl is simply easier to maintain, and therefore to avoid liability with, than the natural element.

The wood-like flooring at Eagle Country Markets is very much a design element. The material is utilized in the specialty store areas, and in the front of the store by the cashiers.

"Their power aisle also features the flooring. We concentrated on those areas," Houston says. However, the floor is used throughout the selling area.

The flooring enhances the overall design of the store as an updated open air "traditional country market."

Other elements of the design include an exposed ceiling, use of natural woods, crates and bushels throughout the fixturing, an earth-toned color palette, antique furniture and checkerboard patterns. The illusion is one of several small specialty food stores, under one roof.

The floor plan leads customers directly to produce, perishable and prepared foods, one of Eagle's strong points. The flooring directly around the deli, fish market and smokehouse areas are contrasting colored tile, to distinguish them from the power aisles.

Wood fixturing and the wood flooring are particularly emphasized at the checkout, which resembles a country lane.

"It gave a warmer, more residential, more inviting look to the store, a real country feeling," Houston says. ■

EARTH-FRIENDLY FLOOR CARE

SAFEWAY REAPS BENEFITS OF METAL-FREE SYSTEM

Safeway's new store in *Ellicott City, Md., uses an earth-friendly metal-free floor care system.*

Contrary to popular belief, environmental improvements do not always translate into added cost. At least that's been the experience of the new Safeway Marketplace store in Ellicott City, Md.

Opened in March, the 51,000-sq.-ft. supermarket uses a metal-free floor maintenance system that provides an easy to maintain wet-look shine. In addition to environmental benefits, the program has resulted in labor savings.

"Metal free is the way to go for us—it's environmentally improved, looks great and has saved us time and money," says Tony Papagna, facilities maintenance manager, Safeway, Eastern Division, Landover, Md., which is responsible for the operation of 144 stores in Maryland, Virginia and Washington, D.C.

The growing interest in the environment prompted Safeway's interest in the metal-free system.

"Environmental issues are becoming increasingly important," says Papagna. "And to eliminate heavy metals from our floor care program and maintain appearance requirements efficiently is of great benefit to us."

Metal-free floor care technology was developed in response to growing environmental concerns.

"Although heavy metals comprise only a small percentage of the total floor coating formula, they can contribute to the overall waste problem," explains Richard Carr, chemical products manager, Pioneer Eclipse, Sparta, N.C., which manufacturers the metal-free floor care system.

Carr says that when too much heavy metal, such as zinc, is released into municipal waste and sewage treatment systems it can kill certain bacteria that are necessary to digest chemical and biological waste.

"Metal-free floor care systems represent an environmentally improved alternative to conventional zinc cross-linking chemistry," the chemical products manager adds.

Prior to implementing the new floor care system, Safeway tested it in another store.

"I was sold on the concept of metal-free floor care for environmental reasons, but wasn't sure it could meet performance requirements," Papagna says.

"I wanted to see if the system was durable enough to ensure wet-look appearance results under high traffic conditions. I also wanted to determine how it would affect maintenance procedures."

Wet-look shine: In addition to internal testing, Papagna visited other retail stores that use metal-free finishes on their floors. He was impressed by the results. The program provided a durable wet-look shine that communicated cleanliness and a positive image.

"The metal-free floor care systems demonstrated excellent performance and appearance results," Papagna adds. "So I decided to apply a metal-free floor care system for the grand opening of our newest store."

A key advantage of the new floor care technology is that it holds appearance and stays on the floor longer than standard finishes, which reduces the number of times the floor must be stripped.

"This results in a significant cost savings when you consider that stripping out a store costs anywhere from $1,000 to $2,000," Papagna explains.

Slip-resistant: While the new floor care program provides environmental and cost benefits, the system's floor coating is UL listed for slip resistance, which provides an important safety measure for Safeway shoppers.

"Providing a safe environment for our customers has always been a paramount concern," says Papagna. "As part of a preventative maintenance program, we test the slip resistance of the floors quarterly and document the results." ■

BIG BEAR'S DESICCANT UNIT

CHAIN DEBUTS MORE EFFICIENT HEAT PIPE SYSTEM

Big Bear Stores, an early user of desiccant dehumidification, has installed a new system in its store in Columbus, Ohio, that combines heat pipe technology with desiccant dehumidification. The heat pipe is used in conjunction with the desiccant wheel to reclaim heat from the process airstream and to preheat the reactivation entering air.

"The use of the heat pipe makes the desiccant system much more efficient," says Stephen Breech, vp construction, Big Bear Stores Company. Based in Columbus, Ohio, the chain operates 60 Big Bear supermarkets and 11 Big Bear Plus combination stores.

To date, Big Bear has installed desiccant systems in about 25 supermarkets.

"We have been putting in desiccant systems in our remodels and new stores," Breech explains. "It is hard to cost justify converting to a desiccant system in an existing store unless you are doing a remodel."

But Breech adds that Big Bear is committed to desiccant technology.

"We are convinced that desiccant technology is the most effective way to manage humidity control in supermarkets," he says. "We know that our refrigeration cases operate more efficiently in stores with desiccant systems—we can even skip defrost cycles."

New system: The system Big Bear has installed in its newly remodeled Columbus store is manufactured by Seasons 4, Douglasville, Ga. Contained in a rooftop unit, it allows for less gas usage on the reactivation heat.

Even more important, says Breech, the unit reduces the amount of heat carried into the return airstream that the cooling system must remove. While the air temperature that comes off the desiccant wheel in typical systems is about 120 degrees, the temperature that comes off the new unit averages from 80 to 84 degrees.

"The heat pipe has the ability to take heat out of the air passing over the drying wheel," Breech explains.

Although the system has only been in operation since April, Big Bear is enthused over the initial results. The chain has already placed an order for a second unit.

"Our preliminary tests, which were conducted in the spring, were based on a store reading temperature of 76 degrees," says Breech. "Under these conditions, the air passing over the drying wheel was about 84 degrees and the air coming out after it passed over the heat pipe was 59 or 60 degrees. By making the air less hot, the heat pipe reduces the air conditioning load more than a regular desiccant system."

Under the system, the supermarket is able to maintain humidity levels with roughly 70 tons of air conditioning where it would typically use 130 tons.

"The decreased tonnage has resulted in substantial savings in terms of reduced air conditioning costs," says Breech.

Another advantage of the heat pipe is that it has no moving parts. It is a passive system.

"There is nothing to break," Breech adds. "And that is a big plus from our point of view."

The unit features a detached heat pipe design with modifications for dissimilar airflows. Internal design modifications minimize charge and increase effectiveness.

"Under this system, 5 to 10 tons of cooling can be removed from the process airstream before entering the return air plenum," says Glen Ragsdale, vp, Seasons 4, Douglasville, Ga.

An airfoil fan is used for the supply air.

"It provides the system with better efficiency than the forward curved fans in that it requires less horsepower than the traditional fan system," says Ragsdale. "The reduced horsepower saves energy."

The heat pipe-enhanced system is more expensive than standard desiccant units. But the upfront cost, says Big Bear's Breech, should be weighed with the reduced energy demand.

"Based on current utility prices—we pay about 4.7 cents a kilowatt hour for electricity—we estimate a two year payback," he adds. "But the paypack should be quicker in other sections of the country, particularly the Northeast, where electric rates are considerably more expensive." ■

NEW LAMPS GIVE DAFFY'S A LIFT

SYSTEM RENDERS TRUE COLORS FOR RETAILER

***High pressure sodium lamps** give Daffy's warm, bight light and high color rendition.*

Daffy's, a New-Jersey based off-price retailer, is better known for discount designer fashions than store design.

But with the 1991 opening of its store in Wayne, N.J., the company embarked on a new direction in terms of interior decor.

The two-level store sports a contemporary design that attracts shoppers as well as accents the clothing on display. Lighting plays a key role in the store's upgraded image.

"We wanted to differentiate the Wayne store and, at the same time, create a prototype that would provide a new direction for our other stores to follow," says Marcia Wilson, director of advertising, Daffy's. Based in Secaucus, the chain operates nine off-price clothing stores in New Jersey, New York and Virginia.

The Wayne store's attractive interior is enhanced by the warm lighting. Daffy's considered several systems for its prototype, but finally selected Philips Lighting's new White SON high pressure sodium lamp.

"The White SON lamp provided all the benefits we were looking for in both accent and ambient lighting," says Tony DiBartolo, director of facility development, Daffy's. "It gives good color rendition and has a warm appearance. And it is energy efficient, with a minimum of 10,000 hours of operation."

High color rendering: Designed for accent, display and downlighting, the White SON has a high color rendering index of 80 CRI. It is available in 35-watt, 50-watt and 100-watt types with tubular and elliptical shaped bulbs, prefocus and medium screw bases. The lamps contain extremely low ultraviolet radiation which eliminates the need for fixture lenses and minimizes fabric fading.

"I like the White SON lamp because it doesn't deceive you," says DiBartolo. "The lamps display the true colors of the merchandise. An item will appear exactly the same color out in the daylight as it does in the store."

Daffy's installed a total of 477 Indy Lighting recessed accent lighting fixtures, open reflector downlights and wall washers throughout the 27,000-sq.-ft. store. White SON 100-watt medium base diffuse lamps were used for ambient lighting, while 50-watt and 100-watt clear T-10 lamps were used in the downlights and directional lighting to accent clothing and highlight the merchandise on display.

In addition, White SON diffuse lamps were used in combination with "warm" 3500K fluorescent lighting to produce a 70 to 100 footcandle general light level. The level was doubled for the accent lighting.

"The warm appearance of the lighting has had a strong impact on customers' response to the new store," says DiBartolo. "The lamps help create a much more inviting interior. It is a marked contrast from our other stores, which tend to feature standard incandescents or fluorescents."

Daffy's has installed the same upgraded lighting program in a major remodel that it completed last year.

"The results there were just as positive," DiBartolo adds. "It is a beautiful store and the lighting really enhances the overall appearance."

White SON lamps carry a higher initial cost than standard incandescents. But, DiBartolo says, they are more energy efficient and will result in lowered operating costs.

"These particular lamps have a minimum life expectancy of 10,000 hours of operation," he adds. "Factoring in our hours of operation, we estimate that we should be able to get over two years out of each lamp."

Pleased with the results of its new lighting program, Daffy's plans to install the system in its new store in Philadelphia which is scheduled to open this September.

The store is located in the 63-year-old Bonwit Teller building. Daffy's bought the eight-story, art deco landmark structure after bankruptcy forced its closure in 1990. The chain will occupy the first floors of the building.

"We plan to restore the building back to the way it looked when it opened in 1929," says DiBartolo. "We are taking it back to its original structure. It is a big job, but the results will be worth the effort." ■

YOUR ROOFING WARRANTY

IMPORTANT QUESTION TO ASK, FACTS TO KNOW

One of the most important parts of any roofing system is its warranty. This is especially true considering that nearly 75% of all post-construction litigation is roofing-related.

"A good, straightforward warranty can protect you and your company," says Alan J. Krowka, manager, warranty services department, JPS Elastomerics, Roofing Systems Division, Northampton, Mass.

Don't wait until your roof fails to check out the fine terms of your coverage.

"The morning you find out that your roof is leaking is not the time to start reading the warranty to find out who to call, what's covered, etc.," Krowka says. "You should be familiar with what is and what is not included in your coverage."

Here are some key questions to help you evaluate a roofing warranty:

Who backs the warranty? Find out who is actually backing the warranty. It could be the roofing manufacturer, the roofing supplier or a third party. Keep in mind that since the manufacturer has the most to lose or gain from warranty claims, he has the most interest in keeping customers happy. As a result, work directly with the roofing manufacturer whenever possible.

If the warranty is backed by the manufacturer, find out if the company has a special fund set aside for warranty expenses and if this fund can handle a series of roof failures (it might be helpful to obtain a Dun & Bradstreet Report to determine the company's overall financial rating). And look into the company's track record of warranty problems—if possible, talk to some of its customers.

Who services the warranty? It should be someone in the technical or field area who can accurately measure the damage and determine the most efficient method of repair. Ideally, the company should have a specific department that deals with warranty services.

Is a final inspection required in conjunction with warranty issuance? If so, who conducts the inspection?

Types of Roofing Used

	Total 1992	Discount store 1992	Drug store 1992	Super-market 1992	Depart-ment store 1992	Home center 1992	Specialty apparel 1992
Single-ply membrane	76.6%	75.0%	80.0%	85.7%	70.6%	73.7%	50.0%
Bur (built-up roof)	63.8	50.0	80.0	52.4	70.6	73.7	50.0
Metal	36.2	35.0	33.3	23.8	11.8	78.9	—
Fabric	5.3	5.0	—	—	—	21.1	—
Four-ply	—	—	—	—	—	—	—
Other	5.3	—	13.3	9.5	—	—	50.0

Note: Totals more than 100% due to multiple responses
Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

Once again, it should be someone with technical expertise, not a sales or marketing person.

Who do you call if your roof leaks, and when? Procedures for reporting leaks and other emergencies should be clearly defined from day one (some manufacturers, including JPS, provide an 800 number in an attachment to the warranty). Also find out *when* you should report the problem—the basic terms of most warranties specify a period of discovery. If a problem goes unreported for too long, it could void your warranty.

If the roof leaks, will your warranty be voided if you take action to stop the leak? Work done by your own crew may jeopardize or even void the warranty. Know what you can and cannot do in emergency situations. Good warranties specify what actions the building owner can take if an emergency should arise.

What is covered by the warranty? You should have a clear understanding of which elements of the roofing system are covered in order to avoid expensive surprises later.

What are the exclusions? Exclusions are extremely important because they are the limitations of the warranty. They should be specifically defined in the warranty. Some common ones:

"Gale force winds" is a general, broad ranging term found on many warranties. If at all possible, advises JPS's Krowka, have the terms of the miles per hour of the winds stated in the warranty.

"This will avoid any later questions as to what actually constitutes gale force winds," he explains.

"Ponding water" is a common and often ambiguous exclusion. Because different warranties all have different provisions regarding ponding water, it is important that you define and clarify the limits of your protection. Coverage should reflect the type of roof you have. While pitched roofs, for example, do not have to worry about pounded water, virtually all flat roofs will experience some degree of this problem.

"Environmental fallout" could mean anything from acid rain to snow. Get a specific definition of this term if it is in your warranty.

"Undefined substrate movement" is another term to watch out for. All buildings expand and contract—and goods roofs are designed to be flexible enough to accommodate this movement. As a result, make sure this exclusion doesn't give the manufacturer a loophole it may exercise later.

Does the warranty have any limitations regarding building occupancy? Some warranties may be nontransferable and cease coverage if the tenant or use of the building changes. This is important if you plan to sell the building in the future.

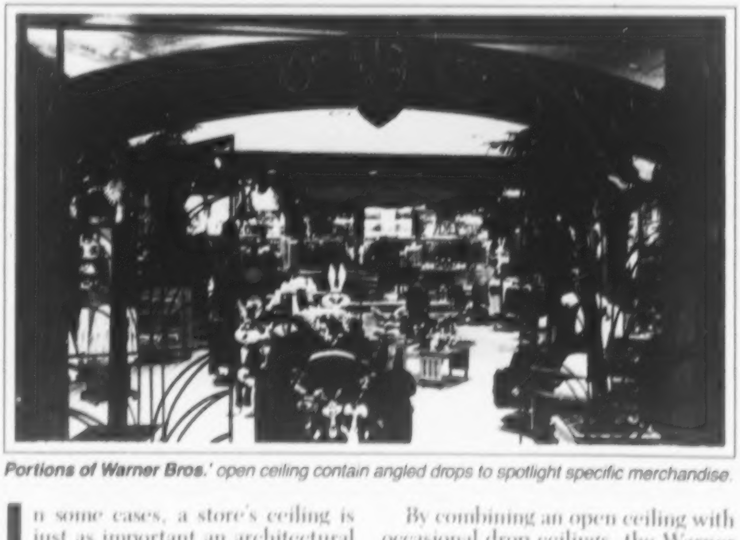
What are your responsibilities in terms of maintenance? Find out if there are any procedures which you must do in order to keep the warranty valid.

A final note: JPS' Krowka cautions building owners that the bottom line in selecting a roofing system is the roof itself, not the warranty.

"Your main priority is to get the best system available for your dollar—it should be one that is backed by a strong company that will assist you if the need arises," he explains. "A good warranty is important, but it should not be the primary consideration in selecting one system over the other." ■

JUST ANOTHER PART OF THE SET

WARNER BROS. STORES PUT OPEN CEILINGS TO USE



Portions of Warner Bros.' open ceiling contain angled drops to spotlight specific merchandise.

In some cases, a store's ceiling is just as important an architectural element as the walls, fixtures and floors. In others, it's a backdrop, a neutral point to focus attention downward.

By combining an open ceiling with occasional drop ceilings, the Warner Bros. stores manage to do both.

The open, black ceiling coordinates with the idea of the store being a Hollywood soundstage.

Types of Ceilings Used

	Total 1992	Discount store 1992	Drug store 1992	Super-market 1992	Depart-ment store 1992	Home center 1992	Specialty apparel 1992
Two-by-four foot lay in panels	76.0%	75.0%	85.0%	90.5%	66.7%	80.0%	57.9%
Acoustical	28.9	45.0	10.0	52.4	19.0	20.0	26.3
Two-by-two foot lay in panels	47.9	25.0	25.0	38.1	71.4	55.0	73.7
Plaster	22.3	10.0	15.0	23.8	52.4	20.0	10.5
Tegular two-by-four foot lay in panels	15.7	10.0	20.0	9.5	23.8	15.0	15.8
Tegular two-by-two foot lay in panels	28.9	15.0	25.0	14.3	47.6	15.0	57.9
Drywall	8.3	—	5.0	—	19.0	5.0	21.1
12-by-12 concealed spline	3.3	—	—	—	14.3	—	5.3
Suspended ceiling	—	—	—	—	—	—	—
Other	9.9	5.0	10.0	9.5	28.6	—	5.3
Not answering	3.3	5.0	5.0	—	4.8	5.0	—

Note: Totals more than 100% due to multiple responses
Source: *Chain Store Age Executive*/Leo J. Shapiro & Associates

"The premise is that you're on a soundstage where a production is happening. The reality of a soundstage is that of an industrial, well-used environment with different scenes in different corners," says Ken Nisch, president of Southfield, Mich.-based Jon Greenberg & Associates, the store's designers. And soundstages have extremely high ceilings.

Lighting that resembles, but is not, the high-powered klieg lights found on a soundstage enhances the effect.

"Without getting carried away, you do feel as though you stepped onto a lot, not into a regular store," Nisch says.

Since the stores average about 7,500 sq. ft., the designers had room to emphasize merchandise in different ways, using the ceiling as one method.

"The open ceiling really is a gray space, acting as a buffer. A conventional ceiling wouldn't do that," Nisch says.

But the open ceiling might not have worked everywhere, due to the breadth of the store's merchandise.

"We have various goods to merchandise," notes Peter Starrett, president of Warner Bros. Studio Stores. These include both relatively inexpensive items to clothing to video to a high-priced gallery-type presentation of cartoon production cels.

With so many varied goods in the store, extra design elements might have cluttered its appearance.

Yet some goods required a bit of "closing in." Within the overall store are a series of drop chipboard ceilings that are off-white and angled in contrast to the high black ceilings over the rest of the store. It serves to delineate different "departments" within each Warner store.

"We have a drywall element over the gallery area because it's a high ticket product," Nisch explains.

In fact, Nisch says, open ceilings aren't for everyone, particularly for smaller, high-end retailers such as jewelry stores.

"It's a fallacy that open ceilings are easier to do. You really have to manage them well to be effective," Nisch says.

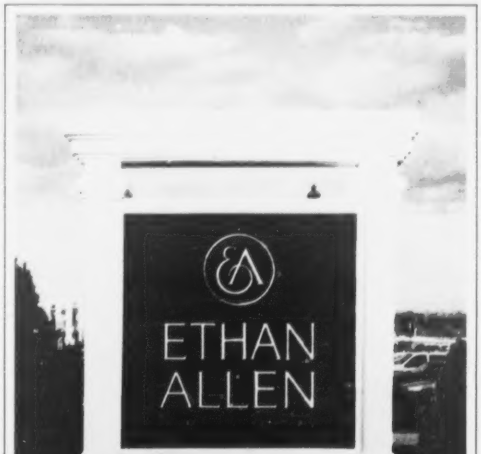
Warner's ceiling also became a way for the designers, and the customers, to have a little fun.

"It really is a neutral. We put some lights up there, but the most fun is the gremlins," which were left over from the most recent Gremlins film, Starrett relates. What was going to be thrown out became an entertainment element within a store devoted to entertainment.

"They're hidden in the ceiling. Kids are the first to spot them. It's a tongue-in-cheek element," Starrett says. ■

LOGO UPDATES ETHAN ALLEN

IDENTITY PROGRAM GIVES COMPANY NEW IMAGE



***Ethan Allen's new** logo will be rolled out on all signage.*

Ethan Allen has launched a new corporate identity program. The program is designed to give the Danbury, Conn.-based furniture retailer an updated image that complements its positioning as a full-service contemporary home decorator.

"We wanted to get the message out that Ethan Allen had changed," says Kyla Lange, project manager, Cato Gobe & Associates, New York, which developed the identity program for Ethan Allen.

Long known for its American colonial furniture, the Danbury, Conn.-based company has in recent years expanded its product lines and updated its stores to reflect modern tastes.

But public perceptions die hard. Market research revealed that, despite the changes, Ethan Allen had a stiff, colonial image that did not make for a very welcoming shopping environment. The new identity program is intended to give the company a fresh, contemporary image.

The development of a new logo was key to the program. Ethan Allen's familiar green logo has given way to a round monogram that depicts the company's initials. A dramatic scripted letter "E" sweeps across the more formal, linear "A."

"Instead of using a standard typeface, we developed a logotype specifically for Ethan Allen," says Lange.

Color change: In another application, the company's name appears in clean, sans serif type, in white against the bold blue new Ethan Allen corporate color.

"They needed a new signature color to reflect the changes that were going on inside the store," adds Lange. "We went with blue because it is more of a fashion color. It's classical and upbeat."

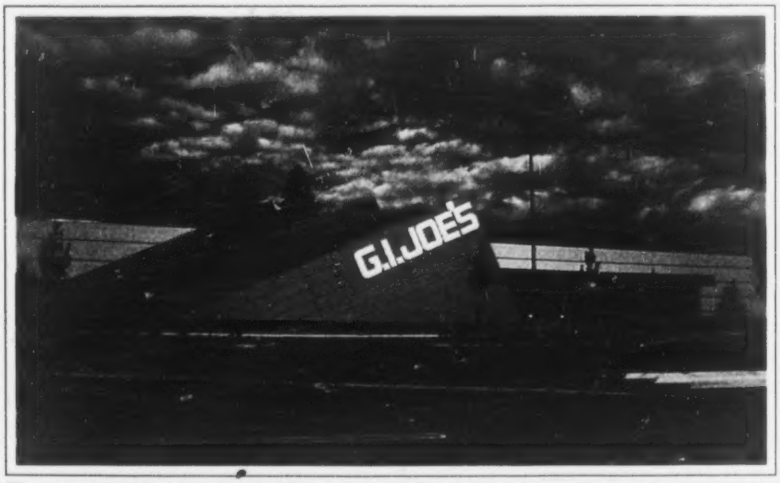
Typeface, says the designer, is a key element in building a retailer's identity, according to the designer. "Type speaks to people with a strong voice," Lange explains. "It is your mark."

Ethan Allen's new logo and typeface will be applied to all exterior signage, truck signage banners and gift packaging. The application system recalls a watermark. "The watermark is synonymous with quality and heritage, both of which are very important to Ethan Allen," says Lange.

The new graphic and color program is being rolled out to Ethan Allen's 50 corporate-owned stores. A new contemporary-looking storefront will complement the program. ■

G.I. JOE'S NEW PROTOTYPE

DYNAMIC EXTERIOR MAKES IMPACT ON CUSTOMERS



***The mountain-like peaks** on the exterior signage on G.I. Joe's prototype reflects the local geography.*

G.I. Joe's, a discount sporting goods and automotive chain based in Wilsonville, Ore., has made a big splash in its first foray into the Seattle market.

Its new prototype, located in Federal Way, Wash., features bold, eye-catching signage set on an unusually-designed storefront. In addition to creating a memorable impression, the facade reflects the geography of the surrounding area.

"The storefront is designed to emulate the mountains which are visible in the distance," says Linda Rosine, vp, Retail Planning Associates, Columbus, Ohio, which executed the new prototype design for G.I. Joe's (the name reflects the chain's origins as a war surplus store in 1951).

The three "mountain" peaks of the storefront are painted in complementary shades of blue and purple. The name of the company appears in big white block letters on one of the peaks.

"The colors match the way the sky looks when the sun sets," says Rosine.

The storefront is made of lucabond, an extremely light weight aluminum that wears well when it is painted.

"It is also a very durable material," adds Rosine.

The storefront has met an enthusiastic response from both shoppers and G.I. Joe's management.

"It has definitely made an impact—the company plans to use it on new new stores," says Rosine.

New interior: In addition to the revamped exterior, the Seattle store also sports a new, contemporary-looking interior. Decorative elements, such as stadium seating and video screens in the footwear department, give the store a more lively, sports feel. There is even a miniature putting green where golf enthusiasts can test putters.

G.I. Joe's traditional racetrack format has been replaced with a Y-shaped layout.

"The triangular floor plan gives the store an open feeling," says Rosine.

The 55,000-sq.-ft. store is divided into three categories: sporting goods and related apparel (the largest department at 30,000 sq. ft.), automotive and hardware and seasonal.

"Seasonal merchandise forms the base of the Y," explains Rosine. "The department consists of ski items in the winter and summer items, like patio furniture and grills, in the summer."

Interior signage, in the form of spotlighted lifestyle photos, help guide the customer through the store.

"The graphics are strategically placed throughout the space to identify the various departments," says Rosine.

One of the most apparent changes in the new prototype is the addition of a glassed-in technical service center. Located in the front of the store, the center showcases all of the functions that are typically done in the back room. Shoppers, for example, can watch as a tennis racket is strung or a bicycle is assembled.

G.I. Joe's plans to roll out its new prototype design in new stores. With 14 stores in operation, the chain expects to add a new store every 18 months for the next 10 years.

For the time being at least, the retailer will keep its expansion limited to the Puget Sound area. ■

FINANCE

REVENUES

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
CATALOG STORE CHAINS				
J.C. Penney*	3,793,000 +	10.5	3,793,000 +	10.5
Sears, Roebuck & Co.*	6,845,700 +	3.3	6,845,000 +	3.3
Sharper Image	27,592 +	9.7	27,592 +	9.7
Williams-Sonoma	69,685 +	9.5	69,685 +	9.5
DEPARTMENT STORE CHAINS				
Carter Hawley Hale*	433,627 +	0.8	433,627 +	0.8
Dillard	1,033,908 +	16.7	1,033,908 +	16.7
Federated	1,571,726 –	1.4	1,571,726 –	1.4
Gottschalks	69,851 +	6.6	69,851 +	6.6
Jacobsons	91,754 +	1.0	91,754 +	1.0
May	2,388,000 +	3.2	2,388,000 +	3.2
Mercantile*	587,818 +	12.7	587,818 +	12.7
Neiman Marcus Group[3]	417,232 +	6.3	1,392,595 +	2.6
Nordstrom	663,809 +	8.7	663,809 +	8.7
Strawbridge & Clothier	205,608 –	0.7	205,608 –	0.7
DISCOUNT STORES				
Ames	482,096 –	24.7	482,096 –	24.7
Caldor*	412,488 +	8.9	412,488 +	8.9
Consolidated	192,032 +	21.7	192,032 +	21.7
Dayton Hudson	3,719,000 +	11.0	3,719,000 +	11.0
Dollar General	188,565 +	27.1	188,565 +	27.1
Hills*	359,053 +	10.5	359,053 +	10.5
Jamesway	182,476 +	4.9	182,476 +	4.9
Kmart	8,266,000 +	8.1	8,266,000 +	8.1
Pic 'N' Save	114,098 +	3.7	114,098 +	3.7
Rose's	301,053 –	6.7	301,053 –	6.7
Service Merchandise	664,654 +	7.7	664.654 +	7.7
ShopKo[4]	457,905 +	15.6	1,660,054 +	8.3
Value City[3]	143,600 +	11.3	506,900 +	15.2
Venture	363,970 +	15.6	363,970 +	15.6
Wal-Mart	11,649,430 +	25.5	11,649,430 +	25.5
SHOE/SPECIALTY CHAINS				
J. Baker	109,383 +	0.7	109,383 +	0.7
Brown Group*	437,048 +	3.5	437,048 +	3.5
Edison Bros.	326,900 +	9.0	326,900 +	9.0
Genesco	112,853 +	6.2	112,853 +	6.2
Melville	2,059,351 +	0.6	2,059,351 +	0.6
U.S. Shoe*	647,547 –	4.1	647,547 –	4.1
Woolworth*	2,096,000 –	1.5	2,096,000 –	1.5
APPAREL CHAINS				
Charming Shoppes	264,561 +	18.0	264,561 +	18.0
Designs	35,918 +	49.7	35,918 +	49.7
Frederick's of Hollywood[2]	34,654 +	1.7	60,327 +	1.7
Gantos	62,655 +	3.6	62,655 +	3.6
The Gap	588,864 +	20.1	588,864 +	20.1
Goody's Family Clothing	92,040 +	26.4	92,040 +	26.4
Jay Jacobs[4]	41,286 +	27.0	146,368 +	24.4
The Limited	1,415,625 +	10.2	1,415,625 +	10.2
Merry-Go-Round	171,393 +	9.0	171,393 +	9.0
Petrie	322,958 +	1.5	322,958 +	1.5
Wet Seal	33,981 +	42.6	33,981 +	42.6
OFF-PRICE APPAREL				
50-Off Stores	39,451 +	43.8	39,451 +	43.8
Burlington Coat Factory[3]	217,246 +	3.9	809,039 +	6.5
Clothestime	68,297 +	20.3	68,297 +	20.3
Dress Barn[3]	90,974 +	10.6	261,961 +	10.2
Filene's Basement	110,979 +	11.1	110,979 +	11.1
One Price Clothing*	32,782 +	41.4	32,782 +	41.4
Ross	221,020 +	11.3	221,020 +	11.3
S&K	18,791 +	13.4	18,791 +	13.4
Syms	70,253 –	2.4	70,253 –	2.4
TJX*	670,937 +	11.2	670,937 +	11.2
WAREHOUSE WHOLESALE CLUBS				
Office Depot*	433,303 +	33.2	433,303 +	33.2
Price[2]	1,557,588 +	11.5	4,075,630 +	12.9
Staples*	181,838 +	73.3	181,838 +	73.3
Waban	736,012 +	19.3	736,012 +	19.3
Warehouse Club[2]	53,272 –	5.7	115,565 –	8.8

EARNINGS

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
CATALOG STORE CHAINS				
J.C. Penney*	136,000 +	70.0	136,000 +	70.0
Sears, Roebuck & Co.*	500	NA	500	NA
Sharper Image	(2,078)	NA	(2,078)	NA
Williams-Sonoma	(2,120)	NA	(2,120)	NA
DEPARTMENT STORES				
Carter Hawley Hale*	(16,779)	NA	(16,779)	NA
Dillard	45,069 +	18.2	45,069 +	18.2
Federated	11,812	NA	11,812	NA
Gottschalks	(461)	NA	(461)	NA
Jacobsons	1,314 +	3.3	1,314 +	3.3
May	81,000 +	6.6	81,000 +	6.6
Mercantile*	8,195 –	66.4	8,195 –	66.4
Neiman Marcus Group[3]	9,027	NA	28,687 +	65.1
Nordstrom	21,582 –	15.9	21,582 –	15.9
Strawbridge & Clothier	(931)	NA	(931)	NA
DISCOUNT STORES				
Ames	(37,737)	NA	(37,737)	NA
Caldor*	(4,048)	NA	(4,048)	NA
Consolidated	3,368	NA	3,368	NA
Dayton Hudson	35,000 +	2.9	35,000 +	2.9
Dollar General	3,864 +	229.7	3,864 +	229.7
Hills*	(13,172)	NA	(13,172)	NA
Jamesway	(3,356)	NA	(3,356)	NA
Kmart	116,000 +	8.4	116,000 +	8.4
Pic 'N' Save	5,413 +	13.7	5,413 +	13.7
Rose's	(3,981)	NA	(3,981)	NA
Service Merchandise	(9,391)	NA	(9,391)	NA
ShopKo[4]	21,136 +	1.9	49,589 +	10.0
Value City[3]	4,500 +	25.0	25,600 +	21.9
Venture	5,565 +	50.0	5,565 +	50.0
Wal-Mart	386,955 +	26.1	386,955 +	26.1
SHOE/SPECIALTY CHAINS				
J. Baker	1,551 +	52.4	1,551 +	52.4
Brown Group*	742 –	80.8	742 –	80.8
Edison Bros.	9,800 +	10.1	9,800 +	10.1
Genesco	(940)	NA	(940)	NA
Melville	(12,794)	NA	(12,794)	NA
U.S. Shoe*	2,823 –	77.1	2,823 –	77.1
Woolworth*	17,000 +	30.8	17,000 +	30.8
APPAREL CHAINS				
Charming Shoppes	16,125 +	56.0	16,125 +	56.0
Designs	(233)	NA	(233)	NA
Frederick's of Hollywood[2]	2,583 +	4.4	3,092 +	0.3
Gantos	141	NA	141	NA
The Gap	45,251 +	10.6	45,251 +	10.6
Goody's Family Clothing	2,825 +	60.7	2,825 +	60.7
Jay Jacobs[4]	433 +	75.3	437 –	65.8
The Limited	51,525 +	1.3	51,525 +	1.3
Merry-Go-Round	7,087 –	18.5	7,087 –	18.5
Petrie	6,860 –	28.0	6,860 –	28.0
Wet Seal	854 +	26.9	854 +	26.9
OFF-PRICE APPAREL				
50-Off Stores	2,131 +	26.3	2,131 +	26.3
Burlington Coat Factory[3]	1,094 +	3.0	31,408 +	32.0
Clothestime	1,011 +	93.7	1,011 +	93.7
Dress Barn[3]	4,763 +	11.4	10,413 +	1.7
Filene's Basement	3,829 +	35.7	3,829 +	35.7
One Price Clothing	(230)	NA	(230)	NA
Ross	3,254 +	60.9	3,254 +	60.9
S&K	616 +	13.2	616 +	13.2
Syms	1,705 –	33.1	1,705 –	33.1
TJX*	15,146 +	2.2	15,146 +	2.2
WAREHOUSE WHOLESALE CLUBS				
Office Depot*	9,351 +	64.3	9,351 +	64.3
Price[2]	20,265 –	26.0	20,265 –	26.0
Staples*	1,280 +	661.9	1,280 +	661.9
Waban	6,169 +	40.3	6,169 +	40.3
Warehouse Club[2]	(509)	NA	328 –	5.7

N/A = not applicable because of loss in either current or comparable period
N/C = no change
*before extraordinary items or changes in accounting principles
†continuing operations only

[1] first quarter figures
[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures

Source: Company reports

FINANCE

REVENUES

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
HARD LINES CHAINS				
Best Buy[4]*	339,929	+ 57.6	929,692	+ 39.8
Blockbuster Entertainment	253,966	+ 43.7	253,966	+ 43.7
Bombay Co.[3]	40,873	+ 30.2	136,085	+ 24.1
Circuit City[4]*	903,325	+ 21.9	2,790,232	+ 17.9
Claire's	51,533	− 1.0	51,533	− 1.0
Fabri-Centers of America	131,569	+ 32.5	131,569	+ 32.5
General Nutrition*	106,972	+ 14.1	106,972	+ 14.1
Good Guys[2]	116,705	+ 21.3	269,337	+ 21.3
Hancock Fabrics*	95,793	− 5.6	95,793	− 5.6
House of Fabrics	126,316	+ 24.8	126,316	+ 24.8
Lechters	52,892	+ 29.7	52,892	+ 29.7
Michaels	94,351	+ 13.9	94,351	+ 13.9
Montgomery Ward	1,090,000	+ 2.5	1,090,000	+ 2.5
Musicland*	184,743	+ 14.5	184,743	+ 14.5
Pep Boys-M,M,J	275,563	+ 17.2	275,563	+ 17.2
Spec's Music[3]	14,770	+ 4.1	47,499	+ 5.0
Tandy[3]	1,085,185	+ 7.4	3,604,334	+ 0.8
Tiffany & Co.*	107,238	+ 10.4	107,238	+ 10.4
Toys "R" Us	1,172,476	+ 14.3	1,172,476	+ 14.3
Trans World Music	91,585	+ 16.0	91,585	+ 16.0
SUPERMARKETS				
Albertsons*	2,296,848	+ 6.3	2,296,848	+ 6.3
American*	4,924,074	− 9.0	4,924,074	− 9.0
A&P[4]	2,739,944	− 1.2	11,590,991	+ 1.8
Bruno's[3]	721,410	+ 2.4	2,060,898	+ 2.8
Delchamps[3]	236,434	+ 1.2	704,528	− 3.2
Eagle Food Centers	265,601	− 5.2	265,601	− 5.2
Food Lion	1,596,491	+ 12.7	1,596,491	+ 12.7
Giant Food[4]	1,151,651	+ 8.8	3,489,762	+ 4.2
Hannaford Bros.	486,769	+ 0.2	486,769	+ 0.2
Ingles Markets[2]	258,698	− 0.5	518,232	− 0.7
Marsh[4]	250,877	+ 2.0	1,130,849	+ 3.5
Penn Traffic*	673,591	+ 1.5	673,591	+ 1.5
Quality Food Centers	98,232	+ 16.0	98,232	+ 16.0
Ralphs Grocery	677,000	+ 1.3	677,000	+ 1.3
Safeway*	3,395,900	− 0.1	3,395,900	− 0.1
Seaway Food Town[2]	139,803	− 2.7	275,063	− 1.7
Smith's Food & Drug	669,511	+ 25.6	669,511	+ 25.6
Village Super Markets[3]	179,022	+ 5.9	518,229	+ 4.4
Vons*	1,268,200	+ 3.7	1,268,200	+ 3.7
Weis Markets	320,719	− 1.5	320,719	− 1.5
Whole Foods Market[2]	28,131	+ 28.6	61,888	+ 26.3
Winn-Dixie[3]	2,433,041	+ 1.8	7,926,210	+ 2.2
CONVENIENCE STORES				
Dairy Mart[3]*	212,132	− 12.6	719,773	− 12.0
Southland	1,777,025	− 5.7	1,777,025	− 5.7
Uni-Marts[2]	77,583	+ 25.4	149,400	+ 13.2
DRUG STORES				
Arbor[3]	120,928	+ 19.5	353,166	+ 17.2
Big B	137,157	+ 3.4	137,157	+ 3.4
Drug Emporium[4]*	204,759	+ 12.2	746,241	+ 19.6
Fay's	212,156	+ 19.8	212,156	+ 19.8
Genovese	138,102	+ 3.9	138,102	+ 3.9
Longs	601,695	+ 5.7	601,695	+ 5.7
Perry[2]	162,828	+ 8.3	338,282	+ 7.2
Rite Aid[4]	1,010,476	+ 8.4	3,748,376	+ 8.7
HOME CENTERS				
Grossman	153,533	+ 3.5	153,533	+ 3.5
Hechinger	439,876	+ 12.4	439,876	+ 12.4
Home Depot	1,639,575	+ 38.1	1,639,575	+ 38.1
Lowe's	883,283	+ 27.4	883,283	+ 27.4
NON-STORE RETAILERS				
Fingerhut	309,472	− 1.4	309,472	− 1.4
Home Shopping Network[2]*	275,500	+ 2.9	567,200	+ 1.4
Lands' End	140,481	+ 11.0	140,481	+ 11.0
Lillian Vernon[4]	45,434	− 24.7	162,397	+ 1.3
QVC Network*	233,168	+ 21.3	233,168	+ 21.3
Spiegel	364,214	− 4.1	364,214	− 4.1

EARNINGS

	1st qtr. (000 omitted)	% change	YTD (000 omitted)	% change
HARD LINES CHAINS				
Best Buy[4]*	5,108	+ 41.4	9,601	+ 111.5
Blockbuster Entertainment	25,679	+ 61.6	25,679	+ 61.6
Bombay Co.[3]	988	+ 201.2	8,100	+ 25.9
Circuit City[4]*	44,038	+ 65.1	78,223	+ 38.1
Claire's	543	− 73.7	543	− 73.7
Fabri-Centers of America	1,918	+ 34.3	1,918	+ 34.3
General Nutrition*	1,767	NA	1,767	NA
Good Guys[2]	749	− 53.1	5,333	− 18.6
Hancock Fabrics*	3,396	− 47.1	3,396	− 47.1
House of Fabrics	2,651	− 21.5	2,651	− 21.5
Lechters	493	+ 40.1	493	+ 40.1
Michaels	3,045	+ 283.5	3,045	+ 283.5
Montgomery Ward	9,000	+ 28.6	9,000	+ 28.6
Musicland*	(3,408)	NA	(3,408)	NA
Pep Boys-M,M,J	10,836	+ 49.9	10,836	+ 49.9
Spec's Music[3]	374	+ 12.0	2,027	+ 33.7
Tandy[3]	35,091	− 4.3	155,734	− 11.8
Tiffany & Co.*	3,103	− 29.7	3,103	− 29.7
Toys "R" Us	28,304	+ 26.4	28,304	+ 26.4
Trans World Music	459	NA	459	NA
SUPERMARKETS				
Albertsons	32,911	− 43.9	32,911	− 43.9
American*	19,224	− 46.6	19,224	− 46.6
A&P[4]	16,067	− 49.1	70,664	− 53.2
Bruno's[3]	15,539	− 9.4	46,247	− 9.4
Delchamps[3]	2,504	− 29.0	3,130	− 65.7
Eagle Food Centers	2,380	+ 5.3	2,380	+ 5.3
Food Lion	49,644	+ 13.1	49,644	+ 13.1
Giant Food[4]	24,659	− 37.9	87,180	− 26.7
Hannaford Bros.	8,812	+ 8.9	8,812	+ 8.9
Ingles Markets[2]	205	− 92.6	1,694	− 66.9
Marsh[4]	2,051	+ 8.6	9,725	− 24.0
Penn Traffic*	(2,258)	NA	(2,258)	NA
Quality Food Centers	5,055	+ 20.7	5,055	+ 20.7
Ralphs Grocery	2,200	NA	2,200	NA
Safeway*	22,900	− 14.2	22,900	− 14.2
Seaway Food Town[2]	419	+ 1,063.9	1,304	+ 1,452.4
Smith's Food & Drug	13,148	+ 26.4	13,148	+ 26.4
Village Super Market[3]	395	− 15.8	(455)	NA
Vons*	15,100	+ 18.9	15,100	+ 18.9
Weis Markets	18,436	− 11.4	18,436	− 11.4
Whole Foods Market[2]	765	+ 63.5	1,467	+ 76.3
Winn-Dixie[3]	53,908	+ 12.4	134,374	+ 10.7
CONVENIENCE STORES				
Dairy Mart[3]*	(9,025)	NA	(20,309)	NA
Southland	(44,923)	NA	(44,923)	NA
Uni-Marts[2]	(2,986)	NA	894	− 7.0
DRUG STORES				
Arbor[3]	3,333	+ 19.8	11,743	+ 22.6
Big B	2,654	+ 39.0	2,654	+ 39.0
Drug Emporium[4]*	(649)	NA	(644)	NA
Fay's	1,537	− 16.2	1,537	− 16.2
Genovese	1,253	− 13.5	1,253	− 13.5
Longs	13,693	− 2.7	13,693	− 2.7
Perry[2]	1,549	+ 39.7	4,098	+ 59.6
Rite Aid[4]	44,694	+ 14.6	124,016	+ 15.6
HOME CENTERS				
Grossman	(4,164)	NA	(4,164)	NA
Hechinger	(51,041)	NA	(51,041)	NA
Home Depot	79,496	+ 55.0	79,496	+ 55.0
Lowe's	23,779	+ 107.2	23,779	+ 107.2
NON-STORE RETAILERS				
Fingerhut	9,590	+ 12.9	9,590	+ 12.9
Home Shopping Network[2]*	7,700	− 8.3	20,800	− 2.0
Lands' End	4,271	+ 185.1	4,271	+ 185.1
Lillian Vernon[4]	3,272	+ 79.9	9,493	+ 2.4
QVC Network*	11,492	+ 702.0	11,492	+ 702.0
Spiegel	1,037	+ 2.0	1,037	+ 2.0

N/A = not applicable because of loss in either current or comparable period
N/C = no change
*before extraordinary items or changes in accounting principles
†continuing operations only

[1] first quarter figures
[2] second quarter figures
[3] third quarter figures
[4] fourth quarter figures

Source: Company reports

SALES STILL SOFT, BUT UP, IN MAY

MOMENTUM SEEN AS ENCOURAGING

Sales for the nation's largest retailers inched up slightly in May, continuing the sluggish growth that began January in a big way but has softened ever since.

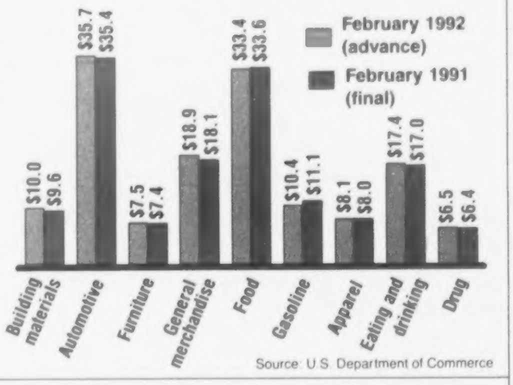
Micheal P. Niemira, vp of Mitsubishi Bank's New York-based economic research department, said that retail chain store sales posted a 4.5% gain in May, compared to a 7.4% gain in April. Although these figures suggest growth has slowed, Niemira said such a conclusion may not be valid, since May was the single strongest sales month of 1991.

Retailers generally complained that sales of their seasonal merchandise was adversely affected by abnormally cool weather. For Wal-Mart, the softness in seasonal merchandise appeared to have been offset by an extra Saturday selling day, Niemira said. Wal-Mart reports sales on a true calendar month.

J. C. Penney outpaced the industry for the third straight month, reporting an 8.8% increase in same-store sales. William R. Howell, Penney's chairman, attributed the growth to strong sales of children's and women's apparel.

MAY SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	May '92 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$4,436,000	+27.0	+12.0	$16,086,000	+26.0	+12.0
Kmart	2,925,000	+ 6.7	+ 1.8	11,192,000	+ 7.8	+ 2.7
Sears	2,474,306	− 0.7	+ 0.3	10,147,377	+ 0.2	+ 2.2
Penney	1,195,000	+ 8.9	+ 8.8	5,026,000	+ 9.6	+10.8
Dayton Hudson	1,210,000	+13.6	+ 5.5	4,850,000	+11.6	N/R
May	805,800	+ 6.2	+ 1.5	3,096,500	+ 5.9	+ 1.2
Melville[1]	728,422	+ 4.8	+ 2.9	3,749,847	+ 5.1	+ 3.0
Walgreen[5]	631,840	+10.3	+ 6.6	3,085,838	+11.4	+ 7.7
Federated	488,100	− 5.0	+ 0.3	2,059,800	− 2.0	+ 3.4
Woolworth	368,000	− 5.1	− 0.6	1,617,000	− 3.4	+ 0.8
The Limited	489,200	+11.0	− 1.0	1,905,000	+10.0	N/C
Circuit City[2]	232,000	+19.0	+ 9.0	644,300	+15.0	+ 5.0
The Gap	191,000	+16.0	+ 3.0	780,000	+19.0	+ 4.0
Mercantile	199,900	+10.5	− 3.5	794,300	+10.9	− 2.7
Neiman-Marcus Group[3]	128,800	+ 4.7	+ 0.7	1,521,300	+ 2.7	− 1.5
Venture Stores	126,800	+10.9	+ 1.7	490,800	+14.4	+ 4.8
Edison Bros.	108,400	+ 7.2	N/R	435,300	+ 8.6	N/R
Rose's	124,094	−13.7	− 8.2	425,147	− 8.9	− 3.3
Jamesway	67,802	− 3.0	− 2.0	250,278	+ 3.0	+ 3.0
Charming Shoppes	96,500	+ 2.0	− 6.0	359,000	+13.0	+ 4.0
Ross	81,000	+11.0	+ 2.0	303,000	+11.0	+ 2.0
Value City[3]	51,200	+ 2.0	− 2.3	558,100	+13.9	+ 8.6
Dollar General	66,000	+24.6	+18.3	258,300	+26.1	+20.1
Best Buy[4]	78,000	+39.0	+ 9.0	246,000	+48.0	+17.0
Gottschalks	24,900	+ 8.7	+ 1.9	92,200	+ 7.4	− 0.3

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R – not reported N/C – no change

Source: Company reports

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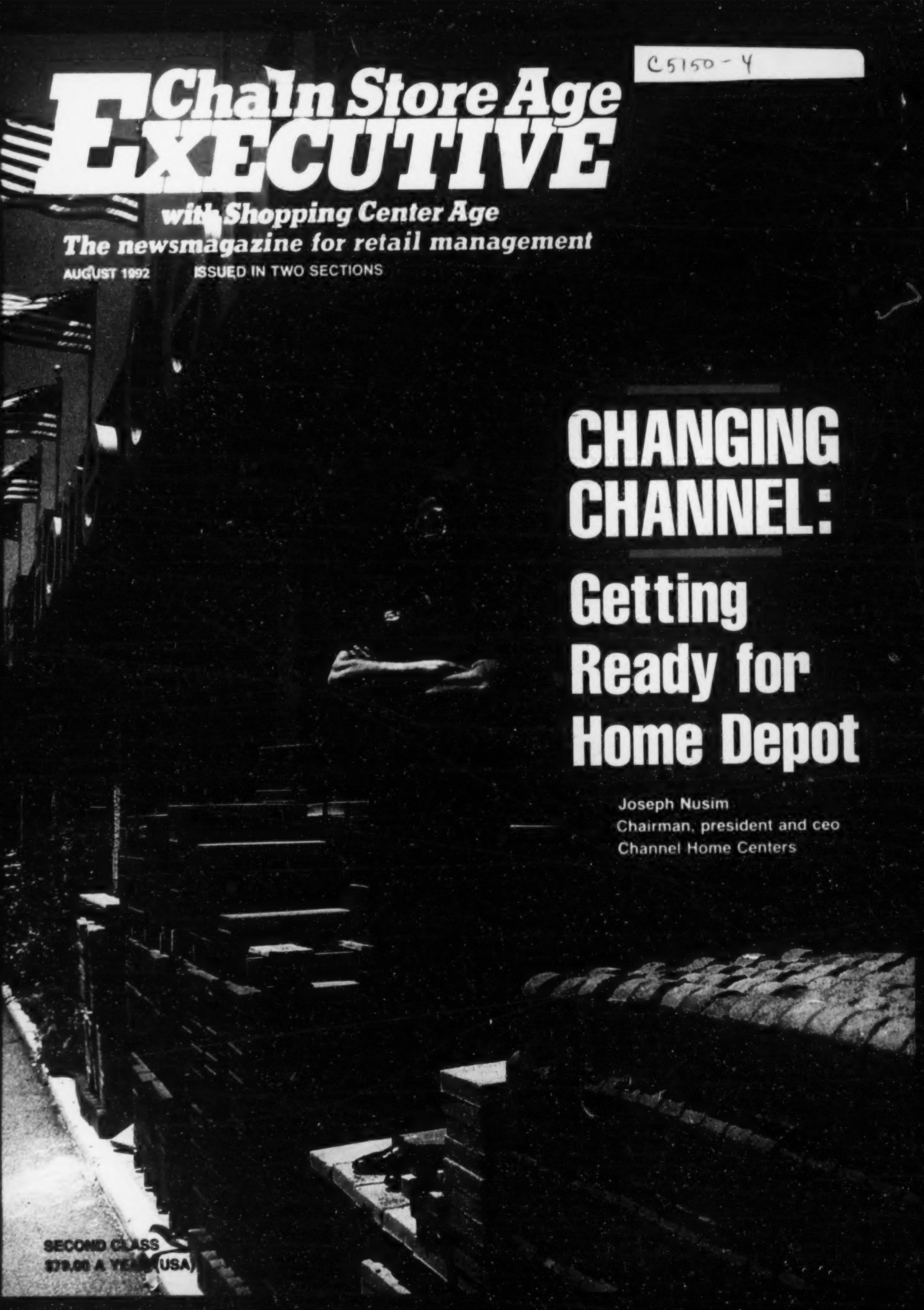

CHANGING CHANNEL:

Getting Ready for Home Depot

Joseph Nusim
Chairman, president and ceo
Channel Home Centers

SECOND CLASS
$79.00 A YEAR (USA)

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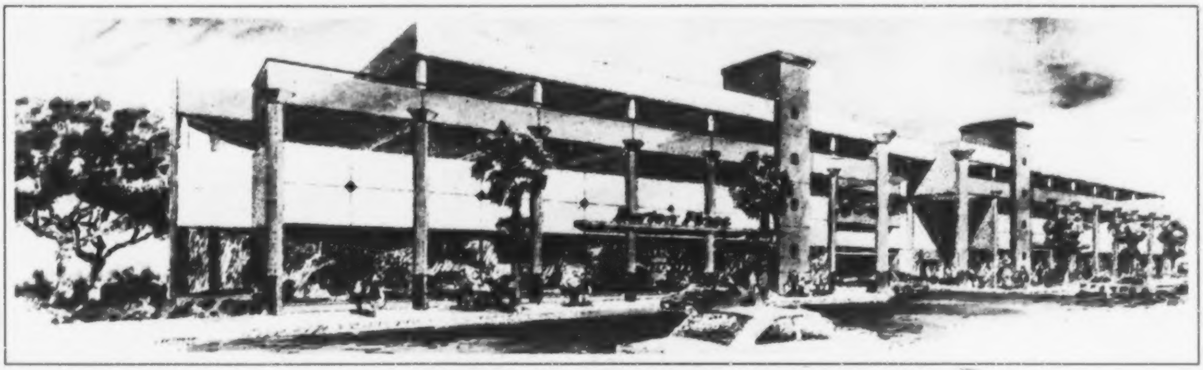

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now, Nusim and company are focusing on their main market, and their main competition: the ever-expanding Home Depot. In some ways, the firm is playing catch-up.

"Prior to the filing, the company was so busy trying to survive that there was no time or, perhaps, money, to defend against Home Depot," Nusim acknowledges.

He adds, however, that Home Depot was not a factor in the decision to file for bankruptcy. At the time of the filing, only one Channel had a Home Depot in its market. Now, 11 Channels have a Home Depot not too far away.

To compete successfully, Channel has created a Home Depot strategy, headed by vp-director of the Home Depot Project, Walter Wilson.

"Our philosophy is that we can't compete with Home Depot. We must coexist," Wilson says.

Once the firm determines that a new Home Depot is entering one of its markets, Channel begins an analysis of its unit. The task force takes over the store six months before the Home Depot opening, and monitors it for six months after.

"We take those stores totally out of the company, away from operations, to cut through the red tape. We really emphasize customer service. Since we're a neighborhood home center, we want our associates to get to know our customers," Wilson says.

Convenience and ease of use are the keys. Channel's stores generally will not exceed 35,000 sq. ft., making them easier to maneuver. The merchandise mix might be changed, and more promotions run. Greeters are being added chainwide.

Channel

President: Joseph Nusim
Sales: $282.8 million (1991)
Profits: $788,000
Type of stores: Neighborhood home centers
Number and size of stores: 52, from 15,000 sq. ft. to 40,000 sq. ft.
Areas of operation: New Jersey and Philadelphia

"A lot of times, it's nothing more than merchandising. We constantly change the front of the store," Wilson says.

And while Channel's expansion plans don't rival Home Depot's, the company does intend to grow. Two more stores will open in 1992, with eight new units planned for 1993.

"Channel seems to have found its niche. We've ended up with a viable company, and saved the jobs of people who had invested their lives in the company, and who had no control over what happened," Fleck says.

Channel has committed to the "smaller is more" philosophy that has brought it out of bankruptcy.

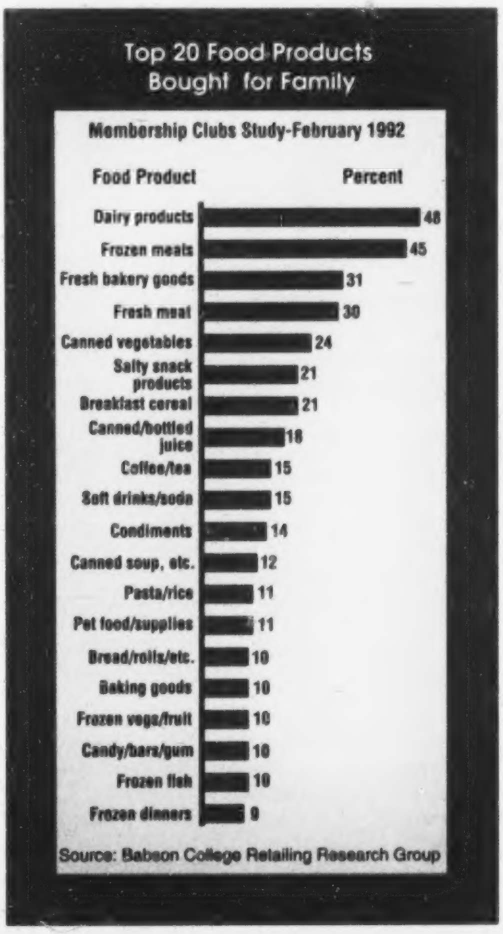
"The key was to survive against the warehouse home centers. We could not compete and would not emulate them. We determined to serve a different niche—the local neighborhood DIY store," Nusim says. ■

—**Debra Hazel**

BIG IMPACT FOR CLUBS
SUPERMARKETS LOSING BUSINESS

It is Wednesday morning, July 1, and Costco Wholesale is about to open a new store in Clifton, N.J., after having opened a store 20 miles north in Nanuet, N.Y., the previous day.

The parking lot is already filling up, and anxious shoppers wait outside the entrance for the gates to lift, eager to hunt for those fabulous bargains (8-packs of stewed tomatoes, 6-packs of Hanes underwear) that make club shopping a kind of adventure.


Top 20 Food Products Bought for Family

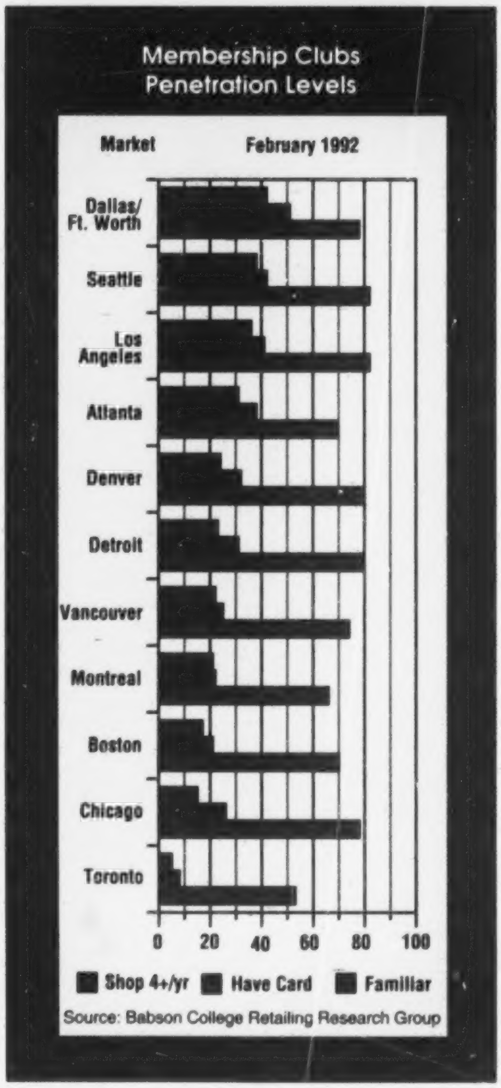
Source: Babson College Retailing Research Group

Nearly 200 members of the United Food and Commercial Workers union are beginning to picket, urging shoppers to patronize nearby Pathmark, Foodtown, ShopRite, Grand Union and A&P stores.

The UFCW has long regarded wholesale clubs as essentially non-union supermarkets, and has made it a practice to picket their openings. Only lately, it seems, have supermarket industry executives themselves come to view the clubs with the same sort of alarm—charging grocery manufacturers with providing the clubs special deals that render the overall playing field unlevel.

Inside the store, Jim Sinegal, president of Kirkland, Wash.-based Costco, surveys the scene. Asked about the claims of supermarket industry executives that the clubs are unfairly stealing market share, he shrugs. "Hey, that's just a lot of talk."

He continues: "Supermarkets are excellent at doing what they do. They give the U.S. the most efficient food distribution system in the world. Clubs like Costco have managed to add a few more efficiencies, such as large sizes and warehouse racking. This makes it possible for us to offer very strong values on the items we carry, but there's no way we can offer the depth of variety


Membership Clubs Penetration Levels

Source: Babson College Retailing Research Group

that the supermarkets can. No one can come here armed with a shopping list to do their food shopping for the week."

Perhaps not, but a new study shows that the share clubs are taking of consumers' food budgets is growing, and that traditional food retailers may ultimately lose 20% or more of their current market unless they respond with a "strategic thrust."

Indeed, the study, based on an 11-city telephone survey of 2,150 household and business club shoppers that was conducted by the Babson College Retailing Research Group, Wellesley, Mass., suggests that the supermarket industry is heavily at risk in the years ahead, and that certain weak players may not survive.

"The evidence is overwhelming that warehouse clubs are retailers and not wholesalers," says Prof. Douglas J. Tigert, the study's key researcher. "The customer flow on the food/drug side of the club is 11-to-1 household vs. business customer, and the dollar flow is 8-to-1. Furthermore, the food/drug part of the club's volume accounts for far more dollars than other non-food categories."

Eleven companies, many of them supermarket chains, including Smith's Food and Drug, H.E. Butt, Provigo, Zellers, Loblaws, Merchant's Distributors, Associated Grocers (Seattle), Dominick's Finer Foods, the IBM Wholesale/Retail Group, Lechmere and Price Club, sponsored the study.

The study recommends that the best strategy supermarkets can employ in seeking to compete with the clubs is to develop club stores of their own—possibly scaled down versions no larger than 40,000 sq. ft., offering food/drug products only.

An existing example, the study says, is the HEB Bodega prototype in San Antonio, Texas, which offers club packs of groceries on warehouse racks, but has none of the tires, appliances, and so forth that take up huge amounts of space in traditional club stores.

This response makes more sense, the study argues, than experimenting with small bulk product sections, or power alleys, in supermarkets. "The addition of this product class will not increase the trading radius of the traditional food retailer, which is one to two miles compared to 13 miles for clubs.

"If sales start to rise for bulk products, overall store gross margins will fall. There can only be a short run gain," the study concludes.

Among the study's other major findings:

Although the wholesale club industry is now 15-years-old (the first store was Price Club, San Diego, in 1976), its life cycle is still in the embryonic stage in many cities. Only a few cities, such as Los Angeles, are close enough to saturation so that further club development may result in cannibalization.

The average shopping frequency of families is once every three weeks. However, shopping frequency varies across the markets, and is highest among Costco shoppers. This is because Costco was the first club to add fresh perishables departments such as meat, bakery and produce.

Ninety-two percent of all cardholders, both business and household, purchased food for their family on their last visit to a club. The average expenditure for food for the family is $90 per trip. Thus, clubs are estimated to be capturing some 7% of supermarket food dollars.

Purchases of food for the home are fairly concentrated, with the lead categories being dairy products, fresh and frozen meats, fresh bakery goods, canned vegetables, salty snacks, breakfast cereals, canned/bottled juices, coffee/tea and soft drinks.

Average expenditures for non-food categories for the home are $75 per trip. There are slightly fewer participants buying non-food for the home, compared to food buyers.

Purchases of non-foods for the home are concentrated in paper products, laundry/cleaning, HBA, clothing, office supplies and books—items typically available in traditional food/drug combo stores.

A widespread misconception is that most of a club's business cardholders are restaurants or convenience stores. In fact, they are primarily small businesses who buy both food and non-food for the office.

Their food purchases are mainly coffee/tea, dairy products, candy, soft drinks, salty snacks and baked goods—primarily for coffee breaks and lunches. These products were formerly purchased at a supermarket. The buying of non-foods for businesses, meanwhile, is dominated by office supplies and stationery.

"Lower cheaper prices" is the dominant reason consumers have for shopping at clubs. What they dislike is slow check out service, the double membership card checking procedure (at the door and at the cash register), and the often too-large packages. They are also concerned with crowds and the lack of brand consistency month to month.

About 20% of all cardholders have never paid for their card. ■

JUNE SALES SPUTTER; PROSPECTS UNCLEAR

WEAK RESULTS IN KEY MONTH BODE ILL FOR RECOVERY

Retail sales continued to limp along at an uninspired pace in June—a month that is generally the second most important sales month of the year, accounting for about 9.8% of annual sales.

Michael P. Niemira, vp of Mitsubishi Bank's New York-based economic research department, said chain store sales posted a 3.9% gain in June, compared to a 4.5% gain in May.

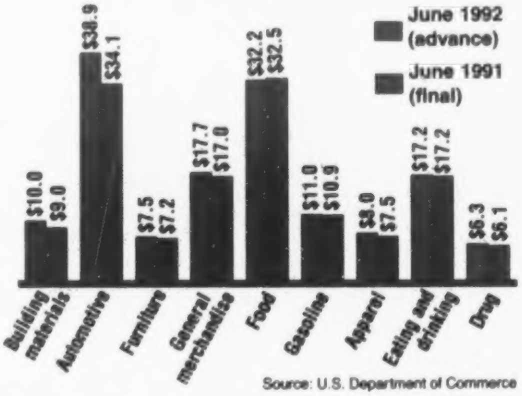
He attributed the sluggish performance to several factors, including unseasonable weather and calendar shifting.

Sears, Roebuck, meanwhile, was badly hurt by disastrous results from its auto centers, which account for 10% of its total sales. A consumer fraud investigation in New Jersey and California had negative consequences for the centers nationwide, Niemira said.

Chains which had disappointing sales will feel intense pressure to perform during July, which is generally a clearance month. The result will be widespread selling at discounts to move seasonal merchandise, Niemira said.

JUNE SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	June '92 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$4,277,000	+23.0	+ 8.6	20,363,000	+25.0	+12.0
Kmart	3,524,265	+ 7.2	+ 2.2	14,715,781	+ 7.6	N/R
Sears	3,091,158	− 2.2	− 2.6	13,238,536	− 0.4	+ 1.0
Penney	1,471,000	+11.4	+11.2	6,497,000	+10.0	+11.0
Dayton Hudson	1,520,000	+ 8.9	+ 2.1	6,370,000	+11.2	+ 3.5
May	932,700	+ 8.8	+ 3.3	4,029,200	+ 6.4	+ 1.7
Melville[1]	913,660	+ 4.8	+ 2.2	4,663,507	+ 5.0	+ 2.9
Walgreen[5]	606,660	+11.8	+ 8.1	3,693,358	+11.5	+ 7.7
Federated	583,100	+ 4.1	+ 4.1	2,643,000	− 1.0	+ 3.5
Woolworth	483,000	− 2.5	+ 0.8	2,106,000	− 3.0	+ 0.8
The Limited	585,300	+ 9.8	− 4.0	2,490,000	+10.0	− 1.0
Circuit City[2]	227,500	+12.0	+ 2.0	N/R	N/R	N/R
The Gap	242,000	+18.8	+ 5.0	1,022,000	+19.0	+ 4.0
Mercantile	222,600	+11.7	− 2.5	1,016,900	+11.1	+ 2.6
Neiman-Marcus Group[3]	167,400	+16.3	+11.9	1,668,600	+ 3.9	− 0.3
Venture Stores	143,600	+12.2	+ 3.1	634,400	+13.9	+ 4.4
Edison Bros.	136,600	+14.2	N/R	571,900	+ 9.9	N/R
Rose's	93,650	− 9.8	− 3.5	518,813	− 8.9	− 3.4
Jamesway	86,814	N/C	N/C	337,092	+ 2.8	+ 2.8
Charming Shoppes	108,700	+18.0	+ 9.8	467,700	+14.6	+ 6.8
Ross	98,000	+11.0	+ 2.0	481,000	+11.6	+ 2.0
Value City[3]	60,200	+ 7.3	+ 2.9	618,300	+13.2	+ 8.0
Dollar General	82,200	+24.6	+18.5	340,400	+25.3	+19.7
Best Buy[4]	102,000	+48.0	+14.0	349,000	+48.0	+10.0
Gottschalks	28,200	+ 9.0	− 4.2	120,400	+ 6.0	− 1.5

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R = not reported N/C = no change

Source: Company reports

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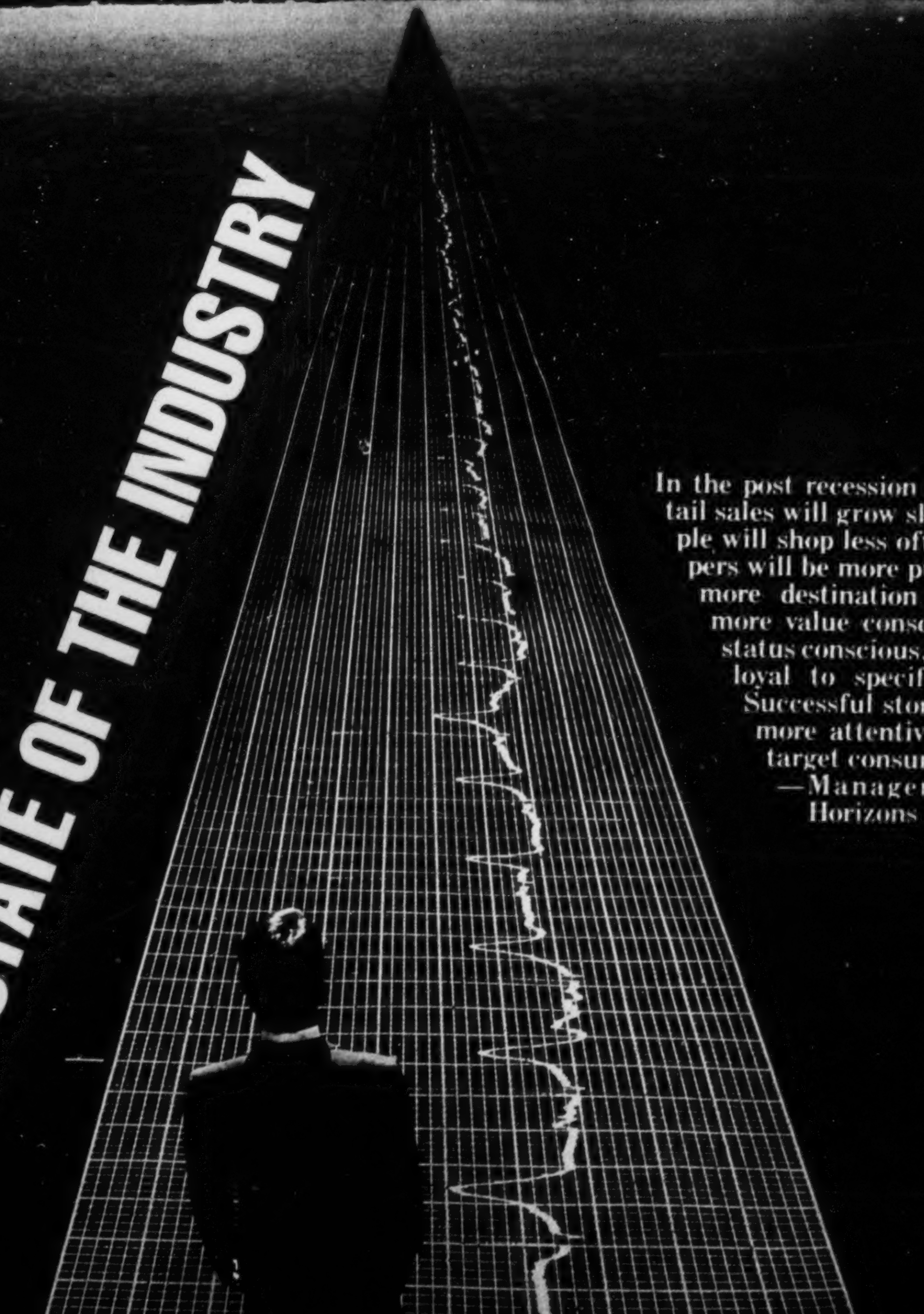
THE EXEC 100

HE STATE OF THE INDUSTRY



> In the post recession world, retail sales will grow slowly. People will shop less often. Shoppers will be more purposeful, more destination oriented, more value conscious, less status conscious, and more loyal to specific stores. Successful stores will be more attentive to their target consumers.
> —Management Horizons

STATE OF THE INDUSTRY

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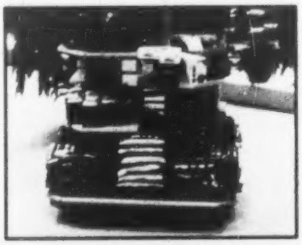
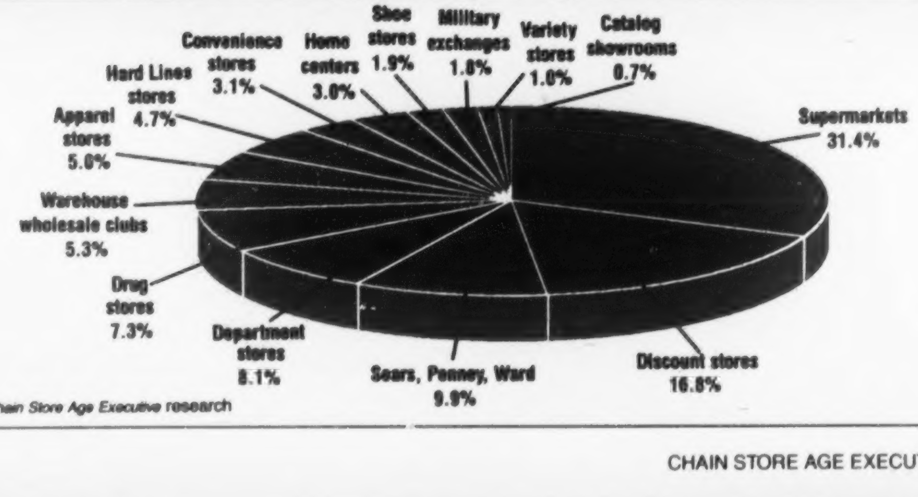


Fountain Drinks
ICY COLD

Photo credit: Management Horizons

THE EXEC 100

$519,198,884,000



Source: *Chain Store Age Executive* research

EXEC 100—$519,198,884,000

Company/ Headquarters Main Retail Segments	1991 Revenues (000)	1990 Revenues (000)	1991 Profits (000)	1990 Profits (000)	Stores 1991 *1990*	Comments
1. Wal-Mart Bentonville, Ark. (DS,WC,S)	$43,886,902	$32,601,594	$1,608,476	$1,291,024	1,928 *1,721*	Fresh bakery, meat and produce departments have been rolled out to 47 Sam's Clubs. The entire warehouse club chain will be paid-membership only by the end of this year. The traditional format continues to excel.
2. Kmart Troy, Mich. (DS,HC,WC,HS,DR,S)	34,580,000	32,070,000	859,000	756,000	4,413 *4,180*	Record sales and earnings during 1991 are spurring the continuing renovation and expansion of 450 to 500 stores this year.
3. Sears, Roebuck Chicago (GM,HS,AS,C)	31,432,900	31,986,000	486,300	257,400	1,824 *1,770*	Sales declines were offset by more than $600 million in cost reductions and a strong showing by the credit division. Catalog division testing a direct-to-home delivery program.
4. Kroger Co. Cincinnati (S)—	21,350,000	20,260,974	79,855	82,380	2,203 *2,214*	In some markets, Kroger is countering deep-discount competitors with membership club-size merchandise and everyday low prices.
5. American Stores Salt Lake City (S,DR)	20,822,956	22,155,530	199,434	182,387	1,650 *1,848*	The company has embarked on a program of selling underperforming assets and concentrating on its most profitable markets.
6. JC Penney Dallas (D,C,DR,AS)	17,295,000	17,410,000	80,000	577,000	1,813 *1,799*	One time charges of $695 million are reflected in 1991 profit drop. However, firm now begins with a clean slate—and a strong fourth quarter.
7. Dayton Hudson Minneapolis (DS,D,AS)	16,115,000	14,739,000	301,000	412,000	770 *708*	While revenues rose 9% from 1990, comparable store sales were up only 2%. Markdowns hit the department store divisions hard, and the company's California units suffered greatly, leading to 27% dip in net earnings.
8. Safeway Stores Oakland, Calif. (S)	15,119,200	14,873,600	54,900	87,100	1,117 *1,121*	Earnings were reduced by a $115 million charge to recognize estimated lease liabilities associated with the sale of Safeway's former Houston division to AppleTree markets.
9. A&P Montvale, N.J. (S)	11,590,991	11,390,943	70,664	150,954	1,238 *1,275*	1991 was the first year since 1982 that A&P failed to record a gain in net income. The failure was attributed to the recession.
10. May Co. St. Louis (D,SH)	10,615,000	10,066,000	515,000	500,000	3,613 *3,291*	Celebrating its 17th straight year of record sales and earnings, May streamlined its department store division, consolidating 14 Thalhimers into Hecht's and 13 L.S. Ayres into Famous-Barr.
11. Winn-Dixie Stores Jacksonville, Fla. (S)	10,074,300	9,744,494	170,900	152,530	1,207 *1,217*	Winn-Dixie has begun implementation of an Everyday Low Price promotional strategy.
12. Woolworth New York (SH,V,HS,AS,DR)	9,914,000	9,789,000	(166,000)	317,000	8,386 *8,619*	Heavy promotional selling to stimulate sluggish consumer spending takes a toll on profit margins and income. Chain continues vigorous expansion into specialty retailing and foreign markets.
13. Melville Rye, N.Y. (AS,SH,HS,DR)	9,886,183	8,686,765	346,681	385,261	8,293 *7,754*	Sales are up, but recession takes a bite out of earnings. Three largest divisions-CVS, Marshalls and Meldisco-continue to perform well. CVS sales pass the $3 billion mark.
14. Albertsons Boise, Idaho (S)	8,680,467	8,218,562	257,794	233,774	562 *531*	Albertsons has purchased 74 Jewel-Osco food-drug stores from American Stores.
15. Southland Corporation Dallas (CV)	8,009,500	8,347,700	82,500	(276,600)	6,269 *6,455*	Southland completed a Chapter 11 reorganization last year, and 70% of its stock was purchased by IYG Holding Co., Japan.
16. Army & Air Force Exchange Dallas (GM)	7,500,000	7,400,000	297,000	316,000	224 *235*	Sales figures include revenue from service stations and small shops not in store counts.
17. Federated Department Stores Cincinnati (D)	6,932,323	7,141,983	835,392	(271,446)	220 *246*	Now out of Chapter 11 and free from Robert Campeau, the new Federated, consisting of Federated and Allied Stores, is in the midst of a stock offering that should further reduce debt.
18. R.H. Macy New York (D)	6,761,633	7,266,772	(150,193)	(215,278)	144 *147*	Filed Chapter 11 in January 1992. The firm already has closed five stores, and will close eight more by year-end.
19. Price Co. San Diego (WC)	6,755,966	5,412,320	134,071	125,383	69 *51*	Sales and store counts now include Canadian units. If Canadian Price club sales had been included in 1990, sales rise would total 13.8%.

* = estimate   ** = Figures include franchised company-owned stores   NA = Not available   (   ) = Loss
D = Department   DS = Discount   C = Catalog   GM = General Merchandise   V = Variety   HS = Hard line specialty   AS = Apparel Specialty   DR = Drug store
HC = Home center   S = Supermarket   SH = Shoe store   CV = Convenience store   WC = Warehouse wholesale club   CS = Catalog showroom

Source: Company reports/*Chain Store Age Executive* research

EXEC 100

Company/ Headquarters Main Retail Segments	1991 Revenues (000)	1990 Revenues (000)	1991 Profits (000)	1990 Profits (000)	Stores 1991 *1990*	Comments
20. Walgreen Co. Deerfield, Ill. (DR)	$6,733,044	$6,047,494	$ 194,965	$ 174,577	1,646 *1,564*	Industry leader continues to buck the recession and expand at a furious pace. Completes chain-wide installation of POS scanning; enters mail-order pharmacy business with Walgreens Healthcare Plus.
21. Food Lion Salisbury, N.C. (S)	6,438,507	5,584,410	205,171	172,571	881 *778*	Faced with a credit crunch, Food Lion used its own financial resources to build 41 stores in the Dallas/Fort Worth market.
22. The Limited Columbus, Ohio (AS,C)	6,149,218	5,253,509	403,302	389,438	4,194 *3,760*	Bright spots include Express and Victoria's Secret. Mixed report card on new businesses, with highest marks going to Structure and Cacique.
23. Toys "R" Us Paramus, N.J. (HS,AS)	6,124,000	5,510,000	340,000	326,000	812 *712*	International expansion continues as chain opens first stores in Japan and Spain; will enter Austria in '92. New, smaller Kids "R" Us prototype on the way.
24. Publix Super Markets Lakeland, Fla. (S)	6,100,000	5,800,000	NA	NA	395 *384*	The company marked its first foray out of Florida by opening a store in Savannah, Ga.
25. Supermarkets General Holdings Woodbridge, N.J. (S,HC)	5,729,601	6,125,963	(402,442)	(41,468)	219 *288*	Last December, the company completed the sale of two subsidiaries, Purity Supreme and Little Peach.
26. Montgomery Ward Chicago (GM,HS,AS)	5,630,000	5,560,000	135,000	153,000	354 *343*	Comparable store sales dipped 2%. Company cites the economy and the Persian Gulf War.
27. Ahold USA Parsipanny, N.J. (S)	5,603,000	4,413,000	NA	NA	492 *341*	In light of the recession, Ahold is emphasizing cost control measures and more effective purchasing through synergistic cooperation of its four U.S. subsidiaries.
28. Vons Cos. El Monte, Calif. (S)	5,350,200	5,333,900	199,800	183,700	320 *320*	Vons purchased the 18-store Williams Bros. chain in 1991, adding to its Southern California market share strength.
29. Costco Kirkland, Wash. (WC)	5,215,456	4,059,600	84,800	49,200	72 *62*	Comparable warehouse sales rose 19% over last year. All stores have now added fresh food departments, and the firm is eyeing European expansion.
30. Home Depot Atlanta (HC)	5,136,674	3,815,356	396,120	259,828	174 *145*	Riding the cocooning trend to record sales in 1991. Likes to cannibalize from own stores by opening new units near older ones.
31. Stop & Shop Cos. Braintree, Mass. (S,DS)	5,010,000	4,989,877	32,400	2,200	247 *247*	Recently spun off its Bradlees discount store division as a separate company.
32. Tandy Corp. Ft. Worth, Texas (HS)	4,561,782	4,499,604	206,063	290,347	7,422 *7,356*	With flagship Radio Shack chain in the doldrums, the nation's largest consumer electronics retailer will debut its new "Incredible Universe" superstore format in '92.
33. Dillard Little Rock, Ark. (D)	4,036,000	3,605,000	322,000	280,000	198 *186*	Sales events were completely eliminated in 1991, with an everyday pricing structure put in place. Ten new stores were opened, and seven former Maison Blanche units acquired.
34. Jack Eckerd* Clearwater, Fla. (DR)	3,800,000	3,500,000	NA	NA	1,675 *1,673*	Six years after its leveraged buyout, a robust Eckerd plans a return to public ownership. Stock offering is scheduled for later this year.
35. Rite Aid Shiremanstown, Pa. (DR,HS)	3,748,376	3,447,486	124,016	107,300	2,452 *2,420*	Debuts larger (8,000 sq. ft.) store format and upgrades pharmacy department with consultation area. Sharpens price image as it rolls out new $1 dollar section.
36. Circle K Corporation Phoenix, Ariz. (CV)	3,598,851	3,736,552	(306,998)	(772,869)	3,859 *4,631*	Operating under Chapter 11 bankruptcy protection, the nation's 2nd largest c-store chain is hoping to regain profitability through a 5-year business plan.
37. Meijer* Grand Rapids, Mich. (DS,S)	3,500,000	3,000,000	NA	NA	65 *55*	Meijer is embarked on an aggressive expansion program.
38. Giant Food Landover, Md. (S)	3,489,762	3,349,546	87,180	118,891	154 *152*	Giant makes extensive use of the QuickCash electronic marketing system from Catalina marketing.

* = estimate ** = Figures include franchised company-owned stores NA = Not available ( ) = Loss
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Source: Company reports/*Chain Store Age Executive* research

EXEC 100

Company/ Headquarters Main Retail Segments	1991 Revenues (000)	1990 Revenues (000)	1991 Profits (000)	1990 Profits (000)	Stores 1991 *1990*	Comments
39. Service Merchandise Nashville, Tenn. (DS)	$3,399,752	$3,435,037	$ 76,080	$ 60,712	359 *346*	Plans to open 17 new stores in 1992.
40. Pacific Enterprises Los Angeles (DR,HS)	3,253,000	3,193,000	(53,000)	(34,000)	1,053 *1,058*	Company exits the retail business with agreements to sell Thrifty Drug, Bi-Mart and Big Five to private investor group and Pay 'n Save unit to Kmart's PayLess Drug.
41. H.E. Butt San Antonio, Texas (S)	3,213,000	2,800,000	NA	NA	175 *150*	Chain has opened two prototypes in San Antonio: A fresh-food oriented store called HEB Marketplace, and a low-price club oriented store called HEB Bodega.
42. Nordstrom Seattle (D,AS)	3,179,820	2,893,904	135,815	115,816	68 *63*	Industry watching to see how the firm's new four-president structure works.
43. Lowe's North Wilkesboro, N.C. (HC)	3,056,247	2,833,108	6,487	71,087	68 *68*	Sales suffered during the general downturn.
44. Grand Union Wayne, N.J. (S)	2,968,500	2,996,600	77,193	41,053	304 *307*	Company has stepped up its pursuit of aggressive marketing strategies, including continuities and buy-one-get-one-free offers.
45. Ralphs Grocery Co. Compton, Calif. (S)	2,889,200	2,799,100	(41,200)	(51,300)	158 *150*	Spun off from Campeau Corp. after its 1990 bankruptcy, Ralphs recently went public to reduce debt.
46. Phar-Mor* Youngstown, Ohio (DR)	2,860,000	2,000,000	NA	NA	294 *250*	Deep discounter heats up the competition as it enters six new states. New financing, secured in early '92, will fuel continued expansion.
47. Ames Department Stores Rocky Hill, Conn. (DS)	2,800,000	3,100,000	(282,400)	(793,500)	371 *455*	Losses without charges relating to the April 1990 Chapter 11 filing actually came to $63.2 million in 1991, down from $317.1 million in 1990.
48. Circuit City Richmond, Va. (HS)	2,790,232	2,366,901	78,223	56,651	228 *185*	Expansion pays off with strong sales and profit growth. Enthused by results of its superstore format, management will open 30 new units in new and existing markets.
49. Waban Natick, Mass. (HC,WC)	2,783,585	2,409,726	30,009	18,412	112 *[illegible]*	HomeClub division changed its name to HomeBase during the year. BJ's left the Midwest to concentrate on East Coast expansion.
50. TJX Cos. Framingham, Mass. (AS,C)	2,757,715	2,446,279	70,100	74,128	1,022 *972*	T.J. Maxx and Chadwick's of Boston turn in strong performances. Efforts to get Hit or Miss back on track continue, with 75 underperforming stores scheduled to close in '92.
51. Penn Traffic Co. Johnstown, Pa. (S)	2,729,537	2,770,875	(7,990)	(24,179)	509 *519*	The company has significantly expanded the variety of private label products available at its P&C stores.
52. U.S. Shoe Cincinnati (AS,SH,HS)	2,725,767	2,718,666	31,203	(31,283)	2,516 *2,704*	Under major restructuring program, closes T.H. Mandy division and sells Cabaret division. Plans call for roll out of new Capezio apparel store over next two years; testing Career Image Company Store prototype.
53. Fred Meyer Portland, Ore. (DS,S)	2,702,721	2,476,055	45,227	33,585	122 *122*	Fred Meyer has began a $100 million five-year project to re-engineer its MIS systems.
54. Bruno's Birmingham, Ala. (S)	2,618,179	2,394,788	66,726	58,099	240 *230*	A December plane crash claimed the lives of six Bruno's executives in 1991, including founders Angelo and Lee Bruno.
55. The Gap San Bruno, Calif. (AS)	2,518,893	1,933,780	229,873	144,522	1,216 *1,092*	With an eye towards increased competition, chain will triple its TV advertising budget to $28 million and open 135 stores in '92. About 100 existing units will be expanded.
56. Mercantile Stores Co. Wilmington, Del. (D)	2,442,425	2,367,210	114,039	123,614	83 *82*	The acquisition of Maison Blanche in February brings the company into Louisiana and strengthens its Florida presence.
57. Payless Cashways Kansas City, Mo. (HC)	2,390,000	2,229,000	197,200	186,500	195 *195*	Withdrew public stock offering in May 1992.
58. Longs Drug Stores Walnut Creek, Calif. (DR)	2,365,916	2,333,767	55,379	59,622	266 *261*	Increased competition in its home markets has a negative impact on earnings. Store upgrading program and POS scanning roll-out will continue in '92.
59. Cumberland Farms Canton, Mass. (CV)	2,300,000	2,200,000	3,000	0	980 *1,200*	Citing slumping real estate values, Cumberland filed for Chapter 11 protection in May.

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Source: Company reports/*Chain Store Age Executive* research

EXEC 100

Company/ Headquarters Main Retail Segments	1991 Revenues (000)	1990 Revenues (000)	1991 Profits (000)	1990 Profits (000)	Stores 1991 *1990*	Comments
60. Smith's Food & Drug Salt Lake City (S,DR)	$2,217,437	$2,037,373	$ 45,047	$ 34,314	109 *95*	Smith's recently signed an MIS outsourcing agreement with Electronic Data Systems, Dallas.
61. Hy-Vee Food Stores* **Chariton, Iowa (S)**	**2,175,000**	**1,867,000**	**NA**	**NA**	**194** ***220***	**Chain operates 37 convenience stores under the Handy Shops banner.**
62. SuperAmerica Group Ashland, Ky. (CV)	2,166,000	1,998,000	31,000	46,000	624 *601*	The c-store chain, a subsidiary of Ashland Oil, plans to open 25 stores a year in proven markets.
63. Dominick's Finer Foods* **Northlake, Ill. (S)**	**2,150,000**	**2,100,000**	**NA**	**NA**	**99** ***99***	**Dominick's is using in-store and distribution center labor management systems to introduce efficiencies and control costs.**
64. Carter Hawley Hale Los Angeles (D)	2,127,917	2,532,749	(216,986)	(119,740)	88 *89*	The acquisition of 80% of the firm's debt by the Zell/Chillmark Fund leads management to believe it will emerge from Chapter 11.
65. Revco **Twinsburg, Ohio (DR)**	**2,086,270**	**1,878,134**	**297,727**	**(65,221)**	**1,143** ***1,125***	**Its reorganization plan approved by the court and creditors, the board of Revco abruptly dismissed its chairman and chief executive, Boake Sells.**
66. Hannaford Bros. Scarborough, Maine (S,DR)	2,007,960	1,687,649	43,350	42,219	130 *130*	Hannaford's major challenge in 1991 was integrating the eleven Alexander's supermarkets which were acquired in late 1990. Sold off Welby Drug chain.
67. Super Valu **Minneapolis (S)**	**2,002,923**	**1,764,745**	**13,707**	**11,761**	**94** ***72***	**Figures reflect retail food operations only. Super Valu divested itself of its Shopko discount store division last year.**
68. Belk* Charlotte, N.C. (D)	2,000,000	2,250,000	NA	NA	317 *330*	A dominant force in the economically struggling South.
69. Hook SuperRx **Cincinnati (DR)**	**1,990,000**	**1,870,000**	**4,500,000**	**NA**	**1,139** ***1,118***	**In an effort to cut debt brought on by its 1986 management-led buyout, drug chain returns to public ownership.**
70. Giant Eagle Pittsburgh, Pa. (S)	1,950,000	1,900,000	NA	NA	128 *128*	Pittsburgh market share leader used a tie-in with the Special Olympics to promote HBC items this year.
71. Navy Exchange Service Command **Staten Island, N.Y. (GM)**	**1,930,000**	**1,885,114**	**80,000**	**100,485**	**138** ***139***	**Even the Navy has to fight rising expenses—a $27 million increase helped drop the profits by $20 million.**
72. Shaw's Supermarkets* East Bridgewater, Mass. (S)	1,899,000	1,680,000	NA	NA	68 *64*	Shaw's uses computer-assisted ordering techniques to help manage inventories at stores and distribution centers.
73. Caldor **Norwalk, Conn. (DS)**	**1,867,551**	**1,766,000**	**2,343**	**4,267**	**128** ***122***	**Charges associated with public offering in April 1991 affected earnings. Unadjusted 1991 earnings came to $21,656,000, vs. $17,733,000 in 1990.**
74. Neiman Marcus Group Chestnut Hill, Mass. (D,AS)	1,744,800	1,688,611	9,289	28,239	281 *267*	New York's deep recession and costs of opening a separate men's store hit Bergdorf Goodman hard, and operating earnings plummeted. The firm expects sales increases at Contempo Casuals to slow.
75. Brown Group **St. Louis (AS,SH)**	**1,727,816**	**1,763,767**	**15,695**	**31,775**	**3,742** ***3,929***	**Poor mall footwear business causes Brown to invest heavily in development of value-oriented businesses; Famous Footwear adds 49 stores.**
76. Hills Canton, Mass. (DS)	1,679,866	2,140,868	22,512	(273,682)	154 *154*	Still operating under Chapter 11, the firm closed 60 stores last year. Industry looking closely to see what changes will come under new president and ceo Michael Bozic, late of Sears.
77. ShopKo **Green Bay, Wis. (DS)**	**1,648,427**	**1,520,545**	**49,589**	**45,080**	**109** ***104***	**The company's IPO was completed in October 1991, and will lead to an agressive eight to 10 stores per year expansion.**
78. Hechinger Landover, Md. (HC)	1,607,727	1,392,198	26,055	26,259	117 *118*	Company has closed several Hechinger stores, but plans to continue New England expansion.

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HC = Home center S = Supermarket SH = Shoe store CV = Convenience store WC = Warehouse wholesale club CS = Catalog showroom

Source: Company reports/*Chain Store Age Executive* research

EXEC 100

Company/ Headquarters Main Retail Segments	1991 Revenues (000)	1990 Revenues (000)	1991 Profits (000)	1990 Profits (000)	Stores 1991 *1990*	Comments
79. Amcena* New York (D,HS,AS)	$1,600,000	$1,540,000	NA	NA	1,442 *1,442*	Diversified, mostly apparel, retailer owned by Dutch holding company.
80. Stater Bros.* Colton, Calif. (S)	1,600,000	1,400,000	NA	NA	107 *105*	Chain of superstores gives its store managers limited buying power.
81. Venture O'Fallon, Mo. (DS)	1,522,444	1,420,672	$ 41,542	$ 34,489	84 *79*	First full year of operation post-May Co. spinoff saw sales increase 7.2%. Four store openings in 1991 featured new prototype.
82. Blockbuster Entertainment** Fort Lauderdale, Fla. (HS)	1,520,141	1,133,150	93,681	68,654	2,028 *1,582*	Acquisition of Cityvision, largest home video retailer in the U.K., sets the stage for European expansion. Opens first stores in Japan, with additional units planned.
83. Drug Emporium** Columbus, Ohio (DR)	1,500,000	1,210,000	(644)	8,200	224 *207*	Loss reflects a sizeable inventory-error adjustment. Cuts back on expansion and centralizes operations as it moves to cut inventory levels.
84. Sherwin Williams Cleveland (HS)	1,495,000	1,434,000	82,000	86,000	1,981 *1,934*	The paint stores segment is being upgraded with new automated tinting machines and color matching computers.
85. Cullum Cos.* Dallas (S)	1,450,000	1,300,000	NA	NA	62 *62*	Dallas company is facing heavy pressure of new competition from Food Lion.
86. Saks Fifth Avenue* New York (D,AS)	1,450,000	1,200,000	NA	NA	48 *48*	Upscale shoppers, it seems, have continued to buy. Will move its Springfield, N.J., unit to the tony Mall at Short Hills (N.J.) in 1995.
87. Rose's Henderson, N.C. (DS)	1,423,345	1,525,412	(23,304)	(27,761)	232 *256*	The company posted an operating profit of $15.4 million last year, but store closings and remerchandisings ate into earnings. About 15 stores will be closed in 1992.
88. Raley's* Sacramento, Calif. (S)	1,400,000	1,300,000	NA	NA	64 *61*	An acquisition of Bel Air Markets by Raley's is pending.
89. Edison Brothers St. Louis (AS,SH)	1,385,300	1,253,600	60,800	59,000	2,781 *2,600*	J. Riggings menswear division leads the company in sales and profit growth. New entertainment division performing above expectations.
90. McCrory York, Pa. (V)	1,362,700	1,518,500	(180,800)	(44,400)	819 *1,147*	McCrory files Chapter 11 and closes more than 300 stores.
91. Petrie Stores Secaucus, N.J. (AS)	1,354,525	1,281,845	16,005	2,996	1,668 *1,639*	Company is looking to strip centers and downtown locations for future growth. Plans call for 115 new stores in '92.
92. Office Depot Delray Beach, Fla. (HS)	1,300,847	903,306	14,991	12,547	228 *173*	Acquisition of Office Club provides entry into western markets. Plans call for 50 to 60 new stores in '92, with a heavy emphasis on California.
93. Barnes & Noble* New York (HS)	1,300,000	1,300,000	NA	NA	1,300 *1,294*	Still top bookstore retailer.
94. Save Mart* Modesto, Calif. (S)	1,300,000	1,200,000	NA	NA	89 *89*	Chain offers video cassette rentals in 25 stores.
95. Weis Markets Sunbury, Pa. (S)	1,294,332	1,271,806	80,557	86,773	124 *118*	The company has begun to replace older-generation scanning equipment.
96. Harris Teeter Charlotte, N.C. (S)	1,213,127	1,164,445	34,329	32,212	132 *130*	Company has opened a $10.3 million, 139,000-sq.-ft. freezer in Greensboro, N.C.
97. Wegman's Food Markets* Rochester, N.Y. (S)	1,200,000	1,100,000	NA	NA	44 *44*	Wegman's is a supermarket industry leader in using in-lane EFT equipment for credit and debit transactions.
98. Kash n' Karry* Tampa, Fla. (S)	1,200,000	1,100,000	NA	NA	117 *114*	The chain is going through a process of downsizing its information systems from a mainframe to UNIX-based distributed processing.
99. Dart Group Landover, Md. (HS,S)	1,195,148	1,083,583	4,722	8,254	613 *612*	Operates 251 Crown Books stores, 331 Trak Auto stores and 31 Shoppers Food stores.
100. Pueblo International Pompano Beach, Fla. (S)	1,132,000	1,075,000	9,030	6,361	52 *50*	Hispanic-oriented store is noted for breathtaking perishables departments.

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Source: Company reports/*Chain Store Age Executive* research

INTRODUCTION

As the economy slowly *turns around, fewer dollars will be spent on hard lines because fewer new homes will be built.*

After the Dust Settles: Retailing in the 1990s

The recession is over and the economy is starting to grow again. Interest rates are down, industrial production is up, and jobs are being created. So can the retail industry now look forward to happy days again? Probably not.

The retail recession of 1989-91 was a threshold through which the industry passed on the way to a new business environment. That threshold stimulated a massive and painful restructuring that has set the stage for a different paradigm of management.

In the post recession world, retail sales will grow slowly, people will shop less often than in the past, and shoppers will be more purposeful and, consequently, more destination oriented rather than impulsive as they were in the mid-1980s. Consumers will be more value conscious and less status conscious. They will be more loyal to specific stores, and successful stores will be more attentive to their target consumers.

In this environment, success stories will be few and far between. Rather than growing by latching onto an expanding market, retailers will attempt to build market share. They will be engaged in what is essentially a zero sum game. In such a game, there are necessarily some winners and many losers.

> The industry has witnessed an unprecedented surge in bankruptcies

In this report, Management Horizons will preview how that game will play itself out in each major retail segment during the next two to three years and what characteristics the winners will exhibit.

- Drug stores will need to undertake actions to become more competitive. For the successful ones, this will entail massive investment in systems in order to speed transactions, reduce costs (and therefore prices), and improve customer service.
- In the food store industry, there will be an increasing focus on building operating margins. This industry, faced with market saturation and a slow growing core product, will attempt to increase profitability by adjusting the merchandise mix toward high margin items.
- Within the increasingly consolidated discount department store segment, some successes will not involve Wal-Mart. Specifically, we will see the resurgence of Kmart, America's second biggest retailer. In addition, there will also be success for a few retailers outside of the much celebrated "Big Three." These will likely include Venture, Shopko and, perhaps, even Ames, which is experimenting with a "store within a store" concept.
- Department stores will move away from concentrating on Chapter 11 to concentrating on the next chapter—making the survivors prosper. This segment will now focus on its operating strengths and

capabilities rather than its debt. While still challenged by alternative formats, the industry will stabilize by focusing on management, technology, service and vendor relations.

- In the convenience store arena, cash rich petroleum companies will continue to take market share away from the conventional operators. The typical convenience store will likely be a gasoline station that sells convenience items.
- The most interesting trend among retailers of hard lines will be the growing importance of furniture, equipment, and supplies for offices, especially home offices. Office supply superstores, computer superstores, furniture stores that focus on home offices and consumer electronics stores that concentrate on computers and other office machines will all face a growing market. The rest of the hard lines industry will actually face a very weak market. With fewer new households and less housing turnover, consumer spending on appliances, furniture and electronics will grow at an historically slow pace.
- Marketing will come to the warehouse club industry because of increased head-to-head competition with other club stores. As a result, they will look for ways to distinguish themselves on the basis of something other than price.
- Successful apparel stores will be those that are particularly value-oriented. The hey-day of ostentation and materialism is long over. Fashion, while important, will take a back seat to practicality, quality and price.
- Home Improvement stores face a slow growth market and will have to improve service and offer more services to build market shares.
- The catalog business will shift focus from explosive growth in the 1980s to market saturation and increasing costs of doing business in the 1990s.

The Year In Retailing

Despite the recession of 1990-91, there were some notable successes in the world of retailing over the past 12 months. Firms such as Wal-Mart, Gap and Home Depot come to mind. What these stores have in common is a focus on value for the consumer. Their prices are competitive, their merchandise is of high quality, and their technology and service is better than most.

This kind of attention to the customer is critical at a time when consumer sentiment is so pessimistic. Despite the relative mildness of the national economic recession, consumer confidence has fallen lower than during more severe economic contractions. Why?

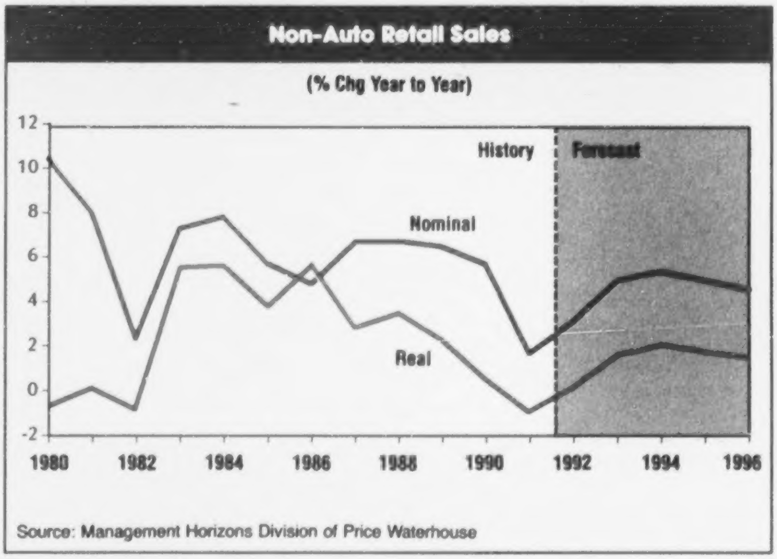
First, although the number of jobs lost during the 1990-91 recession was low compared to many past recessions, an unusually high number of those jobs were in the service sector ally thought to be recession-proof. Consequently, many workers who had never experienced layoffs, or even witnessed loved ones experience layoffs, became shell-shocked when it happened.

Second, although the recession probably ended as far back as the summer of 1991, the recovery has been so weak that most people think we are still in a recession.

Finally, the constraints placed on policy-makers by the large federal budget deficit, the bailout of insolvent banks and S&Ls, and the high cost of winding down the cold war, make it seem as if government cannot take effective action to revive the economy, making consumers both nervous and pessimistic.

Moreover, in the past year, employment has barely grown, housing starts fell to an extremely low level before beginning to recover a few months ago and, despite repeated efforts to loosen monetary policy, the inflation-adjusted money supply has simply not grown. This is particularly worrisome as no economic recovery has ever taken place in the absence of money supply growth.

The effect of all this has been devastating to the retailing industry.



Non-Auto Retail Sales

Source: Management Horizons Division of Price Waterhouse

From April 1991 to April 1992, non-auto retail sales rose a mere 3.0%. The damage, however, is much deeper than simply one year of poor sales. Retail sales have been doing poorly since 1989. In fact, inflation-adjusted consumer spending on goods did not grow from early 1989 to late 1991.

As a result, the industry has witnessed an unprecedented surge in bankruptcies and liquidations. Most of the disappearing acts have been performed by small, independent retailers. That, in fact, is probably the most notable recent event in retailing—the quiet disappearance of thousands of small merchants. The industry is rapidly becoming very consolidated. Those second-tier retailers that remain are falling further behind the industry leaders in terms of operating efficiency and financial performance.

The Outlook

The new paradigm for retailing will be largely the result of a slow

INTRODUCTION

Warehouse Clubs Produce Best Compound Sales and Operating Income Gains

Company	% Change Sales	% Change Op. Inc.	Op. Inc. % Sales	Avg. Sales Per Store	Sales Per Gross Sq. Ft.	Op. Inc. Per Gross Sq. Ft.	% Op. Inc. ROA	% Change Compound Sales 1987-91	% Change Compound Op. Inc. 1987-91
Apparel Stores	14.1	14.6	8.4	$ 1,590,238	$213	$16.68	17.7	13.1	13.0
Catalog Retailers	5.7	– 10.0	9.7	NA	NA	NA	15.2	13.8	2.7
Convenience Stores	– 3.0	165.3	2.0	1,140,787	448	9.60	6.3	1.6	55.0
Department Stores	1.0	1.4	5.5	19,533,922	156	11.92	7.0	3.2	– 6.0
Discount Stores	10.2	23.4	5.0	13,917,035	210	11.48	12.3	11.6	9.3
Drug Stores	8.8	8.2	5.1	2,795,299	307	14.86	14.5	10.1	12.2
Hard Lines Stores	8.1	– 8.9	6.9	3,290,585	196	15.66	10.9	13.9	3.2
Home Centers	16.4	24.0	5.3	14,448,045	227	11.56	11.7	16.7	13.2
Supermarkets	1.3	– 4.6	3.2	12,412,997	359	12.10	11.8	6.6	12.9
Warehouse Clubs	35.4	35.3	2.4	61,719,583	567	13.70	9.2	31.0	28.0

Op. Inc. = Sales – cost of goods sold – selling, general and administrative expenses, including depreciation and amortization (unless op. inc. specifically reported by company). NA = Not applicable.

Source: Management Horizons

growing economy, and a particularly slow growing consumer sector.

There are two things that make any economy grow: an expansion in the number of people working, and an increase in the output of each of those workers—better known as productivity. Unfortunately, the 1990s will witness a slowdown in the former and no offsetting acceleration of the latter. The birth rate declined in the 1960s and has stayed low ever since. Consequently, the labor force will grow at an historically low rate in the 1990s.

Yet labor productivity shows no signs of growing more rapidly. Productivity is affected by the level of investment, the quality of education and the quality of corporate management. None of these are likely to improve markedly in the near future. Therefore, the economy will grow at an annual rate of between 2% and 2½% over the next few years.

Not only will the economy grow slowly, but the mix of economic growth will be different than in the past. As the baby boomers age, they will save a larger share of their income. At the same time, the federal government will collect a larger share of personal income in order to close the budget deficit (this is already happening).

Finally, the low value of the dollar will continue to stimulate exports and suppress imports thereby leading to a reduced trade deficit. Each of these factors will lead to slower growth of consumer spending in the United States and more rapid growth of net exports. So, not only will the economy grow more slowly than in the past, but consumer spending will decline as a share of that economy.

When consumers spend, they will spend differently. With fewer young consumers entering the labor force, there will be fewer household formations and fewer new homes built. In addition, with the baby boomers reaching middle age and becoming settled in their careers, they will be moving less often. Consequently, turnover of existing housing will decline. The net result will be less stimulus to spending on hard lines.

An older population implies more consumer spending on healthcare, education, recreation and entertainment. With spending on services increasing rapidly, spending on goods must grow very slowly. That means that retail sales will grow at a very modest pace in the next several years. For all retailers, the implication is an atmosphere of greater competition between companies, more battles for market share, and intense pressure restraining price increases.

This difficult economic environment will exist in tandem with substantial changes in consumer attitudes and shopping habits. Specifically, people will be shopping less often, shopping at fewer stores on each shopping trip, shopping in a more focused manner, and shopping with greater skepticism and greater consciousness about value. This will be partly due to the increasingly time-pressed nature of the lives of baby boomers, most of whom will be part of two income households or will be single mothers.

For retailers, this will necessitate expanded attention to customer service to secure repeat shopping by target customers. Since the market will be growing slowly and people will be shopping fewer stores, getting a greater share of the dollars spent by each customer will be a critical goal for retailers.

A substantial competitive advantage will go to those retailers with the resources and common sense to invest in technology. Strong systems will enable retailers to improve customer service by increasing transaction speed inventory replenishment and by freeing store employees to focus on customer needs rather than paperwork.

In addition, technology will assist stores in reducing costs, improving the efficiency of the distribution pipeline, and most importantly, increasing the ability of retailers to engage in micromarketing. That is, retailers will be better able to know the needs and habits of a diverse customer base. They will consequently be able to differentiate stores and merchandise to appeal to differing consumer needs.

The net result will be a retail industry in which each major segment is dominated by a small number of large, technologically sophisticated firms. Each firm will grow faster than its overall segment by continually knocking mom and pop out of business, or by buying mom and pop.

—Ira Kalish

Drug store industry sales increased *in 1991 over the previous year due to an increasing demand for both prescription and over-the-counter drugs.*

Drug Stores Fight Back with Systems and Service

In 1991, drug stores proved, once again, that the industry can stand up to a recession. While other retail lines of trade battled with flat or declining sales growth, the drug store industry posted a 9.4% increase in nominal sales over the previous year. Industry sales volume totaled $75.7 billion in 1991, up from $69.2 billion in 1990.

This growth in sales can be attributed to three major factors. First, the aging population is creating an ever increasing demand for both prescription and over-the-counter drugs.

Second, because of improvements in medical technology and changes in the way health care is financed, doctors are increasing the quantity of drugs they prescribe.

Finally, the slowdown in the economy over the past two years has resulted in more anxiety about jobs and income security. As a result, there has been more illness and an increase in the demand for drugs.

Industry Shakeout

Despite the seemingly strong growth drug store retailing has experienced, all is not well in the industry. A reduction in the total number of drug stores is evidence of an over-stored industry which is experiencing a shakeout as it faces more and more competition from other retail lines of trade.

Drug stores have been forced to rethink their position in the market

The larger chains have enjoyed the majority of the sales growth in drug store retailing. Chains continued to grow sales at the expense of the independent druggist as they focused their attention on increasing market share.

In 1991, the number of chain drug stores decreased 2.7%, while independent stores fell 5.6% and total stores fell 4.5%. Individual chain units captured a larger share of local markets. The average sales per chain unit increased 13.5% from $2.08 million in 1990 to $2.36 million in 1991.

Increasing Competition

Strong competition from discount stores, food/drug combo stores, office supply superstores, mail order catalogs and warehouse clubs is directed at drug stores' leading categories, the pharmacy and health and beauty aids. Last year, pharmacy and HBA combined for 63.6% of total drug store sales.

Despite the 14.2% combined sales increase in pharmacy and HBA in 1991, drug store sales in these areas are not growing as fast as demand. Drug stores are losing market share as customers shop different lines of trade for traditional drug store products.

The threat from food/drug combo stores is hardly news. These stores offer a one-stop shopping advantage for the time conscious grocery shopper. The increase in competition

DRUG STORES

Average Unit Sales and Op. Inc. Per Gross Sq. Ft. Shine at Longs

Company	Fiscal Year End	% Change Sales	% Change Op. Inc.	Op. Inc. % Sales	Avg. Sales Per Store	Sales Per Gross Sq. Ft.	Op. Inc. Per Gross Sq. Ft.	% Op. Inc. ROA	% Change Compound Sales 1987-91	-% Change Compound Op. Inc. 1987-91
Arbor	7/31/91	18.9	20.4	5.4	$3,722,000	$449	$23.65	12.5	17.2	20.2
Drug Emporium	2/29/92	19.6	−79.5	0.4	3,462,835	139	0.59	1.7	23.4	− 26.4
Jack Eckerd[1]	2/1/92	5.6	24.7	4.2	2,131,776	224	9.34	10.9	6.9	134.4
Fay's	1/25/92	24.3	3.3	4.5	2,975,648	221	8.96	14.4	13.7	10.6
Genovese	1/31/92	3.5	13.5	3.5	4,657,906	388	13.38	11.8	9.2	13.8
Longs	1/30/92	1.4	− 2.1	7.8	8,978,808	355	27.28	27.3	7.5	4.3
Perry[2]	10/31/91	1.2	29.4	3.0	2,912,823	337	11.09	7.5	2.9	DNA
Rite Aid[3]	2/29/92	8.3	5.7	6.4	1,449,000	NA	NA	14.1	10.3	6.1
Walgreen	8/31/91	11.3	13.0	4.8	4,195,043	425	20.23	15.3	12.0	11.1
Composite	1991	8.8	8.2	5.1	2,795,299	307	14.86	14.5	10.1	12.2

[1] Sales and Operating Income include Eckerd Vision Group, # stores and square footage include drug stores only. [2] Sales and Operating Income per sq. ft. based on selling space only. [3] Includes drug store operations only

NA = Not available

DNA = Does not apply because of loss in current or comparable period.

Source: Management Horizons

from the discount department store industry, however, is more recent and more intense.

Consumers rediscovered value retailing during the recession. Combine low price with the convenience of one-stop shopping, and discount stores become serious competitors for the traditional drug store shopper's pharmacy and HBA dollar.

As a result of favorable demographics and increased store traffic during the recession, discount industry leaders Wal-Mart and Kmart have focused on pharmacy and HBA as key growth areas. Wal-Mart tripled the number of pharmacies it operates in the last five years. It currently operates pharmacies in 73% of its stores. Kmart continues to increase the number of pharmacies it operates, installing pharmacies in many stores as a part of its five year renovation program.

Rx For Stiff Competition: Systems

As a reaction to the increasing competition from other lines of trade, drug stores have been forced to rethink their position in the market and decide how they want to compete with the low-price, convenience offers of other retailers. Most drug stores are choosing to return to the traditional focus of drug store retailing, which includes a renewed emphasis on pharmacy, HBA and customer service.

FASTER
LIFE SAVING SYSTEM
RxWatch

Hook-SupeRx's Rx Watch is a networked system linking the chain's pharmacists.

The return to core departments is being complemented with store remodels and the installation of new systems at the checkout, in the pharmacy and in the back room. Drug stores are now using systems as a competitive weapon against each other and, more importantly, the other classes of trade that are encroaching on their business.

The installation of front-end scanners and the development of pharmacy systems generate efficiencies in pricing and inventory control as well as opportunities for increased customer service. In 1991, drug chains scrambled to install and take advantage of systems developed in the food and discount store industries such as POS scanners, EDI interfaces and satellite links to corporate offices.

Front End Scanners = Micro Merchandising

Many industry leaders have completed installation of front-end scanners. Chains such as Walgreens, Revco, Thrifty, Arbor and F&M have POS scanners in all stores. Others are well on their way to full installation. Longs, Rite Aid and CVS, among others, are currently in the process of chain-wide rollouts.

Chains can use scan data to tailor an individual store's merchandise mix to the needs of the local community. Individual store sales data captured by POS scanners are easy to access and utilize. Thrifty transmits sales data from the stores to headquarters via satellite, where product performance of individual stores can be tracked and analyzed.

Upon completion of installation of its POS scanners, Longs plans to track gross profit margin returns of individual products by store. This data will be used to create plan-o-grams for each store that reflect the demands of the local trading area.

EDI: The Next Step

Some chains are taking the next step of using scan data by implementing electronic data interchange (EDI) to expedite and simplify replenishment ordering. Genovese, which will have scanning equipment in only about half of its stores by the end of 1992, is already experimenting with EDI and has some vendors on line and more in the test phase.

Rite Aid, which is also in the process of installing POS scanners, tested automatic replenishment in the past year.

Walgreens, an industry systems leader, completed chainwide POS scanner installation in 1991 and began installing its Strategic Inventory Management System (SIMS) in all stores in early 1992. The new system, which will link stores, buyers and distribution centers, is expected to be in place by the end of 1993. The SIMS system is designed to reduce inventory while increasing instock positions and facilitating reactions to sales trends.

As drug stores increase the use of POS, EDI and other inventory and price control systems, the gap in operating efficiencies between drug stores and more technologically advanced lines of trade such as food and discount stores will close.

Systems Cut Costs, Increase Service at the Pharmacy

In the past year the industry also stepped up development and use of pharmacy systems. While pharmacy systems are common in drug stores, they have never been used to the extent they are now.

Increasing third party prescription payments have put the squeeze on pharmacy gross margins. To compensate for the shrinking spread, pharmacists are using computers more and more to process third party payments. This has resulted in quicker payment for third party prescriptions as well as a reduction in paperwork, telephone costs, rejected claims and, most importantly, time spent by the pharmacist doing tasks not related to serving the customer.

As paperwork efficiencies are achieved, the pharmacist is freed up to spend more time counseling the customer. This extra attention is the key ingredient to strengthen drug stores' position in the prescription drug and HBA categories.

Patient counseling is, to a great extent, dependent upon the pharmacist having an accurate and up-to-date patient history. Older pharmacy systems allow individual outlets to easily track patient history including compliance rates, allergies and drug interaction problems.

The next generation of pharmacy systems will be networked and allow the pharmacist to draw from a customer's complete history with the chain, not just a single outlet. Hook-SupeRx won a *Chain Store Age Executive*/Digital Equipment Corp. 1991 Retail Innovation Technology Award for a networked pharmacy system.

The Rx Watch network links all pharmacists within the 1,100+ store Hook-SupeRx chain. The Rx Watch program includes a membership card with a 24-hour phone line for emergencies. A patient's prescription history, drug allergies, blood type, and physician's name as well as other medical information can be quickly accessed by phone.

Pharmacists are using the time saved by pharmacy systems, along with the patient information at their fingertips, to provide more personal care for the customer. As drug stores focus on the pharmacy and health and beauty aids to drive their business, it is important that they have a competitive advantage over the food/drug combo store or the discount store.

Because drug stores cannot compete with food/drug combo stores or discount stores on one-stop shopping or with discount stores and membership warehouse clubs on price, customer service in the form of personal attention and safety is an area that many drug stores have chosen to compete in.

Drug stores are fighting *competition with the installation of new systems at the checkout.*

Industry Outlook

Management Horizons projects nominal drug store sales to increase 8.1% annually and real, or inflation adjusted, sales to increase 2.6% per year over the next five years.

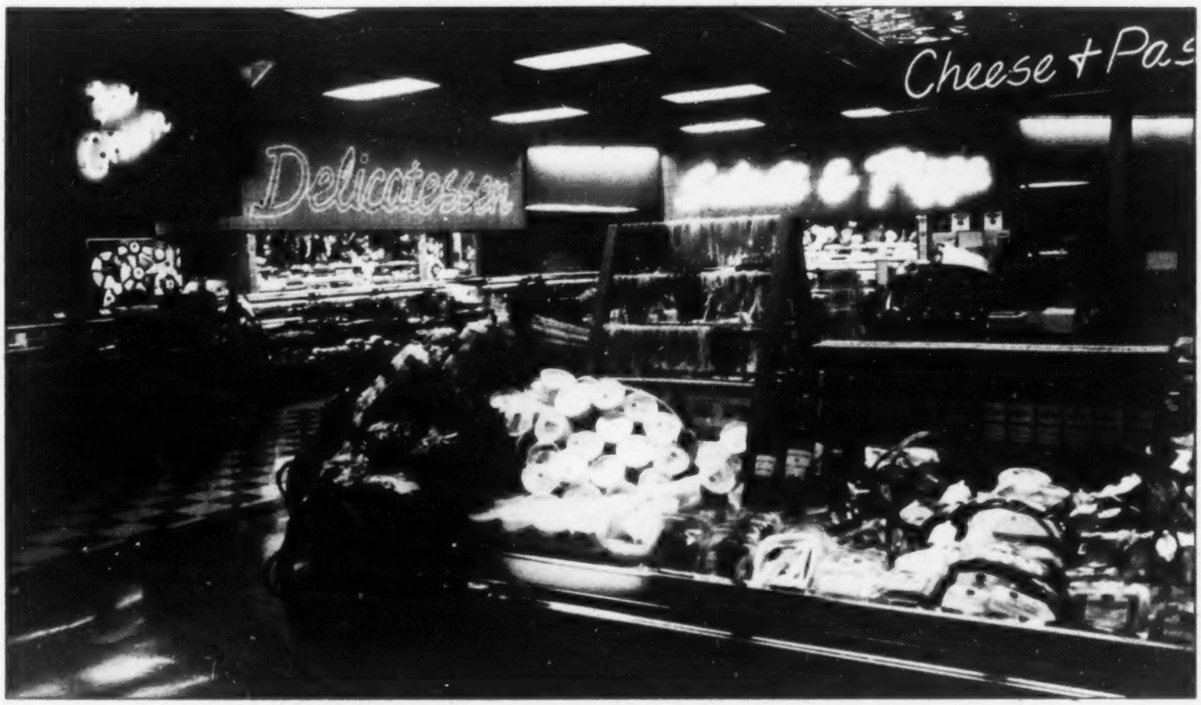
Per store sales will increase at a faster pace as the number of drug stores decreases due to the shakeout of the smaller chains and independents.

The aging population of the United States will be the primary force driving drug store sales over the next five years. This positive shift in demographics will be offset somewhat by sales lost to other lines of trade. Drug stores will need to strengthen their position in pharmaceuticals and HBA to keep from losing more share. This will not come easy.

Independents and smaller chains will fall by the wayside as competition intensifies from within the drug store industry and from other lines of trade.

The successful players will be the large national chains who can leverage new and existing technology to compete on price, convenience and personal service.

—Trevor J. Kershner



Supermarkets are trying to get *more high margin sales from departments such as delicatessen.*

Some Supermarkets Succeed by Wide Margins

Once again in 1991, the supermarket industry experienced negligible sales growth. In fact, real sales declined compared with 1990, largely a result of food inflation exceeding real sales growth.

Additionally, the industry has become increasingly vulnerable to competitive attacks from alternative low-price formats, such as warehouse clubs, deep discount drug stores and even fast-food restaurants. And now, both Wal-Mart and Kmart have threatened the industry by announcing plans for expanding their general merchandise-food super center formats.

Overall, the mature food store industry is plagued by saturated markets and limited expansion opportunities. Within the industry, however, there appears to be a polarization of performance. During the mid-1980s, the supermarket industry as a whole witnessed a discernable increase in operating margin. Last year, only the leaders really continued to demonstrate increasing margins, as they experienced growth in sales, profitability, and market share, mostly at the expense of weaker competitors and smaller "mom and pops."

> The mature food store industry is plagued by limited expansion opportunities

How are the top players gaining ground? Largely by increasing their focus on improved margin performance and operating efficiencies. In 1991, Food Lion's operating margin improved to 5.8% from 5.5% in 1990. Albertson's strengthened its operating margin to 4.8% in 1991, compared with an already healthy 4.6% the previous year. At Vons, an operating margin of 4.0% in 1991 represented an increase of 2.3 percentage points from its 1.7% level just two years earlier.

Successful supermarket chains have uncovered an array of opportunities for attaining margin improvements through: focusing their merchandise assortment on categories and departments offering higher gross margins; taking advantage of aggressive buying practices; developing strong private label programs; and integrating advanced technology into their daily operations.

Merchandise Mix—Optimizing Selection in Larger Stores

SUPERMARKETS

In recent years, larger supermarket formats with extended merchandise offerings, such as the superstores and food/drug combinations, have captured a greater share of industry sales. In fact, nearly one-third of all supermarkets in 1991 were operating under these larger, updated formats, accounting for more than half of all supermarket sales. And the number is still growing. Leading chains are using these diverse formats as growth vehicles to carry them through the 1990s.

At The Kroger Company, 51% of stores are food/drug combinations, a format all newly opened outlets conform to. During 1991, Publix debuted its new prototype, "Publix Food & Pharmacy," a 65,000-sq.-ft. store featuring a sit-down cafe/deli, bakery, floral department, pharmacy and one-hour photo lab.

Additionally, the walls separating food preparation functions, such as baking, shrimp steaming and meat cutting, have been removed in an attempt to "spice up" the consumer's shopping experience.

As larger formats reach their peak size, management must begin focusing on optimizing merchandise assortments and selection given size constraints.

Increasingly, supermarketers have bolstered margins by improving merchandising execution in higher margin non-foods categories and higher grossing perimeter departments, such as bakery, deli, seafood, salad bar, pharmacy and floral.

Buying Practice—The Battle Rages

In recent years, supermarkets have taken advantage of aggressive buying opportunities, including forward buying and diverting, resulting in increased gross margins and improved profitability. Additionally, a move toward centralized purchasing by operators of regional supermarket chains, such as A&P, has helped retailers gain leverage with vendors, resulting in more favorable buying opportunities.

Moving forward, some smaller chains will likely begin forming regional buying alliances so that major suppliers will consider them to be more attractive customers.

Still, traditional supermarket operators are unhappy with the apparent pricing disparity between what vendors are offering them and their low-price/high-volume competitors, including warehouse clubs, general merchandisers and deep discount drug stores.

Conflicts in pricing and availability of product, specifically the larger-sized items produced fundamentally for warehouse club distribution, have been areas of growing concern for retailers and manufacturers, alike. Some grocers have gone so far as to remove certain branded products from their shelves because they were unable to get a special size or pricing deal that the manufacturer made available to club stores.

Manufacturers, having recognized that some supermarket retailers have begun using aggressive buying practices along with slotting fees (the fees paid by manufacturers to obtain shelf space for new products) as a potential source of income and profits, have begun to fight back.

Some manufacturers, led by the behemoth of consumable product manufacturers, Procter & Gamble, have countered retailers' use of aggressive buying practices through the introduction of an everyday-low-pricing of products to all retail customers. The EDLP strategy lowers list prices, but also severely limits or eliminates the up-front allowances and co-op advertising dollars that promotion-oriented supermarkets are accustomed to receiving.

For supermarket retailers, this translates into cut-backs on huge marketing fees traditionally paid to the stores for promoting brand-name products. Other manufacturers experimenting with this "alter-

Vons Strong Across the Board Among Supermarkets

Company	Fiscal Year End	% Change Sales	% Change Op. Inc.	Op. Inc. % Sales	Avg. Sales Per Store	Sales Per Gross Sq. Ft.	Op. Inc. Per Gross Sq. Ft.	% Op. Inc. ROA	% Change Compound Sales 1987-91	% Change Compound Op. Inc. 1987-91
Albertson's, Inc.	1/30/92	5.6	10.3	4.8	$16,016,000	$368	$17.54	18.7	10.3	17.6
American Stores Company	2/1/92	– 6.0	–12.8	2.9	12,483,787	606[3]	17.76[3]	8.8	9.9	12.1
The Great Atlantic & Pacific Tea Company, Inc.	2/29/92	– 2.2	–39.1[2]	1.8[2]	9,035,063	291	5.22[2]	6.3[2]	3.4	– 3.5[2]
Food Lion, Inc.	12/28/91	15.3	18.3	5.8	7,761,913	307	17.90	18.8	21.5	22.9
The Kroger Company	12/28/91	5.7[1]	3.9	3.3	15,465,558[1]	398[1]	13.76	17.0	6.7[1]	14.2
Publix Super Markets, Inc.	12/28/91	6.6	0.4	2.7	16,072,594	NA	NA	10.3	10.3	10.7
Safeway, Inc.	12/28/91	1.4	–25.1	2.7	12,856,495	373	10.05	7.6	– 6.4	1.6
Supermarkets General Holdings Corporation	2/1/92	– 6.7[4]	–13.0[4]	3.4[4]	29,000,000[1]	600[1]	21.40[4]	11.8[4]	0.1[4]	NA
The Vons Companies, Inc.	12/29/91	0.3	7.8	4.0	16,719,375	495	19.77	11.9	88.9	133.4
Winn-Dixie Stores, Inc.	6/26/91	3.4	18.0	2.8	8,300,000	269	7.66	15.8	3.4	9.8
Composite	1991	1.3	– 4.6	3.2	12,412,997	359	12.10	11.8	6.6	12.9

[1] Supermarket operations only. [2] Includes Canadian operations. [3] Selling square feet. [4] Includes supermarket and drug store operations.
NA = Not available

Source: Management Horizons

nate pricing" strategy include Kraft General Foods, H.J. Heinz and Borden Candy Products.

This new supplier EDLP strategy has been met with much resistance in the industry, particularly among the many supermarket chains who operate under a high-low (promotional) pricing strategy, such as A&P, Kroger and American Stores.

Many high-low operators are no longer featuring the products of EDLP manufacturers, and some have reduced or denied prime shelf space devoted to non-promoting brands. High-low operators fear that they too, having limited promotional dollars, will be forced into an everyday-low-pricing strategy.

Some supermarkets have *expanded their offerings to include floral departments.*

Given this scenario, EDLP will likely no longer be a key differential advantage for certain companies like Food Lion and Winn-Dixie who have built reputations as everyday-low-pricers in their markets.

Private Brands—Acceptance and Acceleration

Private brands have received increasing emphasis from retailers in recent years. In addition to their higher gross margins, private brands represent an attractive alternative to name brands in light of the recent introduction of everyday-low-pricing strategies by certain brand-name suppliers. Industry-wide, private label's share of units sold reached 18.2% in 1991, an increase of three percentage points over 1988 levels.

Several factors have contributed to the rise in private brands. The economy has been right to exploit private labels. During recessionary times, consumers tend to trade down, thus giving the price-value offering of private label products stronger consumer appeal.

In addition, retailers generally achieve higher gross margins from private labels than name brands, which often is reason enough for stores to increasingly promote and devote more space to private labels.

The growing importance of private brands has led top-of-the-line private label programs to upgrade both packaging and quality in order to better compete with national brands. At The Kroger Company, for instance, management's commitment to a quality private label program has resulted in private label products accounting for 18% of chainwide sales in 1991. Other leading supermarket retailers recognized for their solid private label programs include Safeway, Giant Food and Vons.

The supermarket industry has long been recognized as a leader in the application of advanced technological systems to the retail industry, such as POS scanning and electronic frequent shopper programs. Going forward, the advancements will not be solely technological, but how technology interrelates with structural and operational developments, and how it can be applied to attain increased operating efficiencies and margin improvements.

Today, advancements are being made in the areas of systematic labor management; improved front-end scanning devices, such as side-bar scanning; and distribution efficiencies, including direct store delivery and mechanized warehousing. Among systems continually being evaluated and implemented are: electronic shelf labeling, computerized shelf space allocation, electronic marketing programs, electronic data interchange, direct product profitability and electronic direct store delivery systems.

Vons is implementing electronic direct store delivery in all of its stores. With EDSD, each store knows in advance what shipments are expected from which suppliers and when they will arrive. With this information, management can plan staff accordingly, resulting in a reduced labor component, reduced shrinkage through less handling and increased inventory turns.

In addition, at Vons and ShopRite, electronic shelf tags are being tested. With the push of a button, shelf prices and the prices stored in the cash registers' memory can be changed, offering tremendous labor saving advantages.

To attain productivity improvements throughout the remainder of the decade, retailers must continue to make investments in those technological systems that will afford them future improvements in operating efficiency, and hence margins, by emphasizing automatic replenishment systems, distribution center automation, electronic price changing, and labor and facilities management.

Industry Outlook

The outlook for food store sales remains modest. In the next five years, the industry will not experience any real growth, primarily due to a slowdown in population growth and the low rate of food inflation. In fact, real sales are expected to decline in 1992 and 1993 by 2.8% and 1.1%, respectively.

Despite this, certain segments of the industry will prosper. Large chains with large store formats will grow. Stores able to successfully execute the simultaneous merchandising of both food and non-food departments and offer synergistic one-stop shopping convenience will do well. In addition, those companies investing in advanced systems in order to improve labor and space productivity through technology, will do well.

—**Sandra J. Skrovan**

WAL-MART
COOKWARE
10
9
8
17
1 38
Angel Soft

Wal-Mart increased total company sales *35% to $43.9 billion. Growth plans include tripling to 30 the number of its Wal-Mart Supercenters by 1994.*

Discount Stores Fared Well During Recession

The discount department store industry is one of the few retail lines of trade to have fared well during the recent recession. Nominal sales were up almost 9%, far better than most other retail segments.

The key factor in this industry's success last year was the strong price-value appeal targeted to the nation's wary consumers, many of whom, by necessity, traded down from conventional department stores to discount stores.

These consumers appear to be satisfied with the industry leaders' efforts to upgrade their shopping environments and drive costs and prices downward.

In addition, the recent strengthening of the selection of soft goods at discount stores enabled them to pull market share away from specialty apparel stores. Further progress in these areas will likely keep consumers interested in this store type for much of the 1990s.

Discounting will be increasingly dominated by the biggest three players: Wal-Mart, Kmart and Target. Already in control of over two-thirds of industry sales, their share will grow further during the 1990s.

> Wal-Mart continued to steamroll its way to growth in the latest fiscal year

Many other discount department store retailers will either disappear or be transformed into another format because they face formidable competition from "category killers" that offer better selection, service and price in core discount store categories.

Membership warehouse clubs are also appropriating the conventional discount department store's low price image. Eventually, even the designation "discount department store" will be dropped as these stores no longer represent *off*-price, but represent *the* price.

The Wal-Mart Machine

Nobody sets the standard for *the* price better than Wal-Mart. The company has been relentless in its pursuit of cost efficiency and, as a result, has transformed the nation's distribution system, making it by far the world's most productive and efficient, capturing a substantial share of sales from less effective forms of retailing.

Recently, Wal-Mart has seen the best of times and the worst of times. On the positive side, the company continued to steamroll its way to growth in the latest fiscal year.

Total company sales increased 35% to $43.9 billion. Comp store sales increased 10% over the prior year. Net income was $1.6 billion, an increase of 25%.

However, the company and the industry were deeply saddened by the death of Wal-Mart founder and beloved leader, Sam Walton, on April 5, 1992. His successor, son S. Robson Walton, together with ceo, David Glass, will be challenged to carry the momentum of this retail giant through the 1990s and beyond in the absence of Sam Walton's retailing genius.

Future corporate growth is expected to come, in part, from the

DISCOUNT STORES

growth of the company's food business in small and medium-sized communities. To help capture a piece of that market, Wal-Mart plans by 1994 to about triple to 30 the number of its Wal-Mart Supercenter stores, an outgrowth of its larger Hypermart stores that sell both general merchandise and food.

Wal-Mart will probably roll out Supercenter stores at a pace mirroring the early growth of its Sam's Club format, which has grown to more than 200 outlets since 1983.

At the same time, the company is building its first retail food distribution facility to exclusively service its stores through its subsidiary McLane Co., a distributor of grocery and other products acquired 18 months ago. The 704,150-sq.-ft. food distribution facility in Clarksville, Ark., is scheduled to open early next year.

Wal-Mart: The Number 1 Discount Store By The Numbers

Company	Fiscal Year End	% Change Sales	% Change Op. Inc.	Op. Inc. % Sales	Avg. Sales Per Store	Sales Per Gross Sq. Ft.	Op. Inc. Per Gross Sq. Ft.	% Op. Inc. ROA	% Change Compound Sales 1987-91	% Change Compound Op. Inc. 1987-91
Ames	1/25/92	– 9.3	DNA	–3.7	$ 6,602,892	$103	–$ 3.85	– 7.8	8.6	NA
Bradlees	2/1/92	0.0	13.5	3.7	13,680,309	199[3]	7.15[3]	5.9	– 3.7	5.1
Caldor	2/1/92	5.7	0.8	4.1	14,940,408	157	6.39	9.9	5.1	11.9
Target	2/1/92	10.6	– 1.7	5.1	20,477,916	205	10.25	10.4	14.3	9.1
Hills	2/1/92	–21.5	–16.3	3.4	9,129,707	121	4.09	6.7	2.6	–14.0
Kmart[1]	1/29/92	2.9	6.8	5.6	10,995,959	186[3]	9.93[3]	12.4[2]	3.6	0.1[2]
Rose's	1/25/92	– 8.1	DNA	1.4	5,658,320	111	1.54	4.7	0.8	–16.3
ShopKo	2/29/92	8.4	5.1	5.3	15,478,188	177	9.34	12.3	11.9	13.6
Venture	2/1/92	7.2	12.1	5.0	18,680,294	187	9.51	14.9	6.0	7.4
Wal-Mart	1/31/92	24.4[1]	23.9	5.5	19,399,784[1]	266[1]	17.11	15.6	24.6[1]	22.4
Composite	1991	10.3	23.4	5.0	13,926,182	210	11.47	12.3	11.5	9.3

[1] Discount store operations only. [2] Includes Canadian operations. [3] Selling square feet. DNA = Does not apply because of loss in current or comparable period.

Source: Management Horizons

Additionally, Wal-Mart's acquisition in November 1991 of Phillips Cos., an Arkansas supermarket chain, will provide additional volume for the food distribution center as well as expertise on food pricing and marketing strategy.

As it grows, Wal-Mart continues to pioneer new depths in retailer-vendor relationships. The company is collecting information on direct product profitability from at least one major consumer goods vendor. This information lets Wal-Mart know the net-net cost of an item, the cost of distributing the merchandise, and whether the most efficient way to distribute is to ship the goods to its network of distribution centers or direct to its stores.

This move will likely change the nature of competition among retailers by leveling the buying field for national brands and enhancing marketing and operations as the dominant factors that differentiate retailers and generate profits.

But, not all of the company's efforts at retailer-supplier relationships have been positive. The company made a well-publicized, unpopular move in November 1991, when it elected to cease doing business with manufacturers' sales representatives in favor of dealing only with principals of its suppliers.

Wal-Mart's apparent discontent with sales reps lies in the lack of decision-making capacity inherent in that layer of the distribution channel. According to industry observers, the mass retailer has grown so rapidly and gone on-line with EDI so quickly that it has found decision-making through third parties to be an "unacceptable management option."

Kmart Prospects Improving

Kmart fared remarkably well in the recent recession. The company's specialty retail group, which includes OfficeMax, Pay Less Drug Stores, PACE Membership Warehouse, Waldenbooks, Sports Authority and Builders Square, posted strong results in 1991. The discount department store business experienced improved sales and profit growth.

The Kmart discount store business is finally receiving a $2.3 billion face-lift following years of neglect as the company diversified into specialty formats. The aggressive Kmart store renewal program, which was announced in February 1990, is progressing on schedule.

In 1991, 474 projects were completed. The company opened 55 new full-size Kmart stores, replaced 51 stores, enlarged 164 stores, closed 11 stores, and refurbished 204 stores to bring their layout and fixturing up to new store standards.

At 1991 year end, 30% of Kmart stores had been updated. Another 450 to 500 projects are expected to be completed during 1992, bringing the total to 50% of stores.

In addition to renovations, 600 existing outlets will be expanded to a new standard size of 100,000 sq. ft., 300 will be moved to new locations, and 250 stores will be added to the chain. Plans call for the completion of the physical updating phase of the Kmart store renewal program by the end of 1995, at which time the company will be operating more than 2,500 modern, full-size retail stores in the United States.

Other key initiatives underway at Kmart involve technology: point-of-sale systems, the company's satellite network, automated replenishment, and the Partners in Merchandise Flow program, which involves state-of-the-art, just-in-time merchandise delivery and EDI with key vendors.

Kmart expects its investment in technology will result in better merchandise buying and order flow and an improved in-stock position (thus, improved customer service).

TARGET
Greatland
STOP

As number three of the 'Big Three,' *Target continues to expand, with plans to add 45 new stores this year to its current 463 stores.*

And, like Wal-Mart, future growth may come from food retailing. The prototypical PACE warehouse club is being increased by almost 20,000 sq. ft. to accommodate more food items, including perishables.

Kmart will also open more of its combination Super Centers in 1992. The format made its debut last summer when a 147,000-sq.-ft. unit opened in Medina, Ohio. A second Super Center is scheduled to open in August in Montrose, Ohio. Another five units are likely to open within the next year.

Target Still Expanding

Target, number three of the "Big Three," is continuing its rapid expansion. The company plans to add 45 new stores this year to its current 463 stores. Sales are expected to reach approximately $9 billion, up from $8.2 billion in 1990. Additionally, the company plans to continue to roll out its Greatland concept.

Target, which categorizes itself as an upscale discounter, was probably the pioneer of department store-style merchandising within a discount setting, considering its roots are with parent company Dayton Hudson Corporation.

One of Target's greatest appeals is its fashion-sensitive merchandise categories attractively displayed using lifestyle merchandising, a la The Gap, with bold signing and graphics.

Target has invested heavily in developing quality private brands that offer consumers exceptional value. One part of the company's strategy is to present a dominant assortment of basic fashion merchandise. Target focuses on stocking all stores with the right sizes, colors and accessories that consumers expect. Assisting in its efforts are the many suppliers that participate in Target's Quick Response partnership program.

Target is determined to improve its in-stock position through its basic item merchandising as well as improvements in systems technology, including increased use of electronic data interchange with vendors. In fact, in the last five years, Target has decreased its rain checks on advertised items by an incredible 72%.

Venture—A "New" Player to Watch

While the "Big Three" players in the industry deserve attention, there's a new kid on the block that is staring to turn heads.

In its first full year as an independent public company (spun off from May Department Stores Co. in November 1990), Venture posted sales of $1.5 billion, a 7% increase over 1990 sales. Earnings were up 20%, while comp store sales increased 3.4% over the prior year.

The company has been eager to embark on an aggressive expansion program that was impeded by its former parent company. Its 1992 plans are to open nine stores and remodel nine stores. The company plans to open eight to 10 new stores a year through 1996, growing the store base by over 50% from year-end 1991.

This past year, the company unveiled its new 96,000-sq.-ft. prototype store which is designed to be more customer-friendly, with wider aisles and increased space between racks of merchandise. The prototype has an open feeling that makes shopping easier. It features improved lighting, high-impact fixtures, and high-rise walls for presenting the merchandise better. The store also features Venture's new Customer Convenience Centers and Cafe Express restaurants.

Several other important initiatives are underway at Venture. The company plans to increase same store sales by offering quality, branded merchandise at superior value, become even more customer-responsive by making the customer the number one priority, drive costs down even further by staying on the leading edge of technology to become more efficient in all aspects of the business, and continue to be a socially responsive organization by making efforts to protect the environment.

Industry Outlook

As in past recessions, discount stores benefited from their reputation for competitive priced merchandise. Over the last few years, many consumers, apprehensive about their jobs and income, traded down from conventional department stores and full-priced specialty stores.

In the coming few years, economic recovery will naturally lead some consumers to return to conventional department stores and other full-priced venues. Therefore, we expect sales growth for the discount store industry to be lower than in the last few years. Specifically, while sales rose at an annual rate of 7.2% from 1987 to 1991, we anticipate sales growth of 5.5% annually from 1991 to 1995.

—Kimberly D. Hendrix

In terms of customer service, *department store retailers will offer a more appealing merchandise mix and establish good customer relationships.*

The Next Chapter in Department Store Retailing

In the 1980s, conventional department stores faced a decline in market share across virtually all merchandise categories. Narrowly focused specialty stores such as The Limited and Merry-Go-Round, price competitive discount stores such as Wal-Mart, and mail-order catalogs all exploited the changing shopping patterns of the American consumer to gain at the expense of department stores.

The increasing fragmentation of the marketplace played a dominant role in this trend. There was an expansion in the share of ethnic minorities in the population, an increasing diversity of lifestyles, and a decline of the middle class which led to greater polarity of income.

In addition, the increasingly busy baby boomers became pressed for time. They found shopping to be a chore, rather than a pleasure. They sought avenues for reducing time spent shopping. Stores specializing by consumer niche became popular for consumers looking for the right merchandise, right away.

The financial impact of the industry consolidation which occurred during the 1980s has also taken a considerable toll on leading department store retailers. Without capital resources to adequately invest in inventory, stores and technology, department stores found themselves even further behind the eight ball.

Leading merchants are carving out a new niche for the department store

Amidst this atmosphere, many industry observers began to suggest that there no longer existed a viable place in retailing for full priced general merchandisers like conventional department stores. Instead, specialized merchants like The Gap , and The Limited, and Dress Barn would satisfy the unique needs of particular consumer segments. At the same time category killers like Toys "R" Us and Circuit City would capture the market for hard goods by offering a wide selection, low prices and excellent service.

Department Store Retailing—Redefined for Competitive Advantage

To some extent these predictions were true. Much of the decline experienced by the department store industry is attributable to these trends. However, there still does exist a viable position for conventional department stores. As the primary source of distribution for many apparel manufacturers, there are many constituencies who have a vested interested in their survival as a mainstay of mall-based retailing.

Additionally, despite the prevailing secular changes in consumer shopping behaviors and preferences, the department store format has the potential to satisfy the reformed "shop 'til you drop" baby boom customer on a selection, convenience and value basis.

It is imperative to note, however, that this potential will not be realized through the "tried and true," traditional approach to department store retailing. Quite the contrary.

DEPARTMENT STORES

In fact, leading merchants are carving out a new niche for the department store, one that is customer driven, operationally efficient, technologically advanced and business savvy with regard to matters of growth and capitalization.

Survival of the Fittest

Industry consolidation during the 1980s resulted in the assumption of a tremendous debt burden for many department store companies. While many of the players remained the same, the playing field shifted dramatically in terms of operating and financial performance standards.

Department store retailers, such as May Company and Dillard, possessed the capital resources, operating structure and management vision to take advantage of market share growth opportunities.

Dillard and May Class Acts Among Department Stores

Company	Fiscal Year End	% Change Sales	% Change Op. Inc.	Op. Inc. % Sales	Avg. Sales Per Store	Sales Per Gross Sq. Ft.	Op. Inc. Per Gross Sq. Ft.	% Op. Inc. ROA	% Change Compound Sales 1987-91	% Change Compound Op. Inc. 1987-91
Carter Hawley Hale	2/1/92	−16.0	− 8.4	3.3	$21,068,485	$127	$ 4.20	4.2	− 7.2	NA
Dayton Hudson[1]	2/1/92	7.8	−17.7	6.4	23,778,151	218	13.96	9.0	10.6	13.5
Dillard	2/1/92	12.0	12.7	8.5	21,022,875	138	12.28	9.8	16.3	18.5
Federated	2/1/92	− 2.9	97.5	3.9	29,880,703	153	5.88	3.6	−11.1	−19.2
R.H. Macy	8/03/91	− 7.0	−35.1	4.1	46,471,704	206	8.35	5.7	6.7	−17.2
May[1]	2/1/92	4.3	5.2	10.9	27,582,555	171	18.46	14.8	12.6	12.4
Mercantile	1/31/92	3.2	3.3	7.2	29,605,152	186	13.54	10.4	3.2	− 6.4
Nordstrom	1/31/92	9.9	22.6	5.6	48,546,870	388	22.02	8.8	13.4	5.9
J.C. Penney Co.	1/25/92	− 0.3[1]	9.8	2.7	9,253,950[1]	125[1]	NA	3.5	1.3[1]	−25.8
Composite	1991	1.0	1.4	5.5	19,533,922	156	11.92	7.0	3.2	− 6.0

[1] Department store operations only
NA = Not available
Source: Management Horizons

Unfortunately, other department store retailers did not fare as well, as reflected by the voluminous number of Chapter 11 filings.

It would appear that all the cards are now on the table with the Chapter 11 filing of R.H. Macy and the reemergence from bankruptcy of Federated Department Stores.

Department stores, historical giants in retailing, cannot rely upon past conquests to forge their futures. Rather, their continued viability and future success will largely depend upon how effectively they can develop a new playbook and execute according to a new set of rules.

The Merchandising Challenge

Department stores have undeniably lost their fashion leadership position. This factor is one of the primary reasons that specialty store competitors have gained such dramatic inroads into department store industry market share.

Additionally, margin performance has eroded in other key categories, requiring customer-driven department store companies to revise their merchandising strategies and to edit the breadth of their assortments to substantially enhance performance and productivity.

Going forward, department stores must capitalize on their strong brand orientation as a differentiating factor in soft goods. Many department stores have been developing stronger relationships with a fewer number of vendors, often building "headquarters" locations for key consumer brands with attractive in-house specialty shops.

The objectives of a narrower vendor mix include better leverage with resources, opportunistic buying capabilities, reduced complexity, and more powerful, valuable and differentiated positions versus key direct and indirect competitors.

Declining sales and margin performance has prompted a changing emphasis on home and hard goods categories. Leading department store companies are downplaying the commodity home areas in favor of the more productive fashion or gift oriented offerings.

This strategy enables the department store to offer the appeal and selection of a specialty store assortment along with the convenience of one stop shopping. Although successful merchandising strategies in the hard goods categories will vary across the competitive set, they must be predicated upon strictly defined performance criteria and market share expansion opportunities.

The $64 Thousand Question: How Much Private Label is Too Much?

Private label programs potentially offer retailers two primary advantages: enhanced gross margin opportunity plus fashion exclusivity.

Consumers are demanding more and more value for their shopping dollar. Traditional department stores initially explored private label merchandise programs as a means of offering the customer value, while achieving above average gross margin performance.

However, many department stores have experienced difficulties in effectively executing their private label programs in terms of consistent quality, timeliness, and uniqueness of fashion.

Accordingly, the programs have weakened the stores' overall fashion position.

As a result, a number of retailers are now lowering their overall dependence on private label merchandise or have reduced their commitment to developing programs in the higher risk, fashion sensitive areas in favor of a more basic offering.

In fact, Dillard has opted to forego private label altogether to pursue a predominantly branded strategy.

Private label programs continue to play a key role in the strategy of many department stores, such as Macy's and May Co., with well developed programs that are utilized to fill voids in the assortment, which would otherwise be filled with lower margin branded goods.

Leading department store competitors must develop and execute a private label strategy that functions as a complement to the distinctive and differentiated branded assortment, enhancing gross margin while offering exclusive fashion appeal and/or reliable in-stock position on key item, fashion basics.

Winning the Customer Back—The Start of a New Relationship

In addition to offering a highly focused and appealing merchandise assortment to customers, successful department store retailers of the 1990s will also merchandise a good relationship with their customers.

These relationships will be established by fulfilling customer expectations by *consistently* delivering quality, selection, value, convenience, personalized interaction and an appealing store environment.

Such relationships will extend far beyond the traditional service offerings of the past. For example, being in stock in the right merchandise is often the most important measure of customer service in today's competitive marketplace.

As a result, a number of department store companies have invested heavily in basic stock systems.

While not every department store has the proper incentive (i.e. margin structure) to deliver the "personal service" of Nordstrom, several conventional stores are developing comprehensive strategies to upgrade the level of personal service on the selling floor.

In general, leading department store retailers must pursue initiatives which result in more frequent and more direct communication with customers.

For example, May Company manages an on-going customer service survey, which often provides the rationale for changes in store policy or amenity offerings. Examples of customer-driven changes include enhancing return policies, broadening size distributions in selected stores/markets, upgrading store directories at each entrance, installing more full length mirrors in selected departments, increasing the number of chairs on the selling floor, installing baby changing stations in both men's and women's lounges, and accepting payment on charge cards at the point of sale.

may
POLICY
WE WILL NOT BE UNDERSOLD
Our prices are the lowest for famous maker children's wear

Department stores are *becoming more price competitive.*

"State of the Art" Operational Efficiency

Retailers have become more polarized in their use of technology. Leading edge retailers are investing in technology to meet market demands and to support decision making at both the store and headquarter levels.

Several technology-driven department stores (e.g. Dillard and May) have invested in systems to reengineer their business processes.

Examples of emerging technologies or processes which are being used to build competitive advantage are image processing, expert systems, open and relational systems architecture, CASE technology, integrated retail software packages, outsourcing, supplier/retailer information links (EDI, pipeline management systems), and satellite communications technology.

Empowering the Organization with a Vision

Department store companies, for the most part, have clung to an outdated organizational structure fraught with inefficiency and excess. Additionally, the financial turmoil that continues to plague many of them has diverted senior management attention away from important merchandising, marketing, and operational strategic issues.

A streamlined operation, capable of providing an efficient *and* effective support and overhead structure, is certainly a critical success requirement for department store retailing in the 1990s, as best evidenced by Dillard and May.

However, more than cost reduction and business process reengineering will be required of top department store competitors of the future. Senior management must provide their troops with a vision, a mission, a strategy for success, and then empower the organization to execute every dimension of the strategy.

Empowering the organization with a common strategic vision is, perhaps, the most critical component to achieving future success and competitive advantage in the 1990s.

The Concept of Leverage in the 1990s

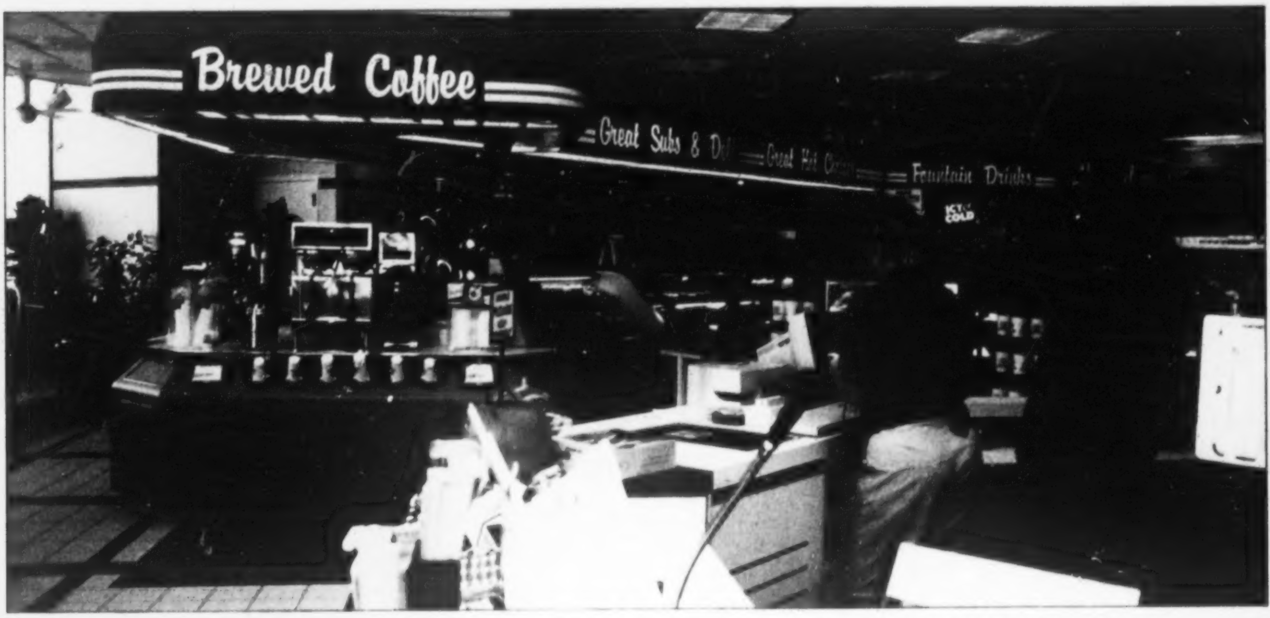
As it pertained to the department store industry of the 1980s, the term leverage most commonly referred to an unsustainable debt burden.

However, the mid to late 1990s will represent a period for the department store industry in which the term leverage will refer to a company's ability to synergistically capitalize upon competitive strengths to position for differential advantage.

Industry Outlook

In the coming decade, sales at department stores will start to grow once again. After declining at an annual rate of 0.7% from 1987 to 1991, inflation adjusted sales will rise at an annual rate of 2.1% in the next five years. A modest rebound in the economy, coupled with an end to the shakeout in the department store industry, will enable the survivors to prosper.

—Jennifer J. Crites



Convenience stores are emphasizing *food service in order to attract more female shoppers, baby boomers and dual income families.*

A No Growth Year Causes Convenience Stores to Scramble

The 1990s will be a decade of change and innovation for many convenience store retailers. Having lost much of their core business to the leading gasoline chains, traditional c-stores are now searching for growth niche markets.

Total convenience store industry sales were essentially flat from 1990 to 1991, increasing from $103.5 to $104.0 billion.

Total industry sales numbers, however, do not reveal the competitive disparity in the marketplace. "G-store" (gasoline convenience store) sales grew at an annual rate of 14.7% from 1987 to 1991, while traditional c-store sales averaged only 5.6% annual growth, and actually declined 0.2% in 1991.

G-stores now represent 40% of the 84,500 convenience stores, and will account for the bulk of industry growth through the mid-1990s. The number of c-stores, on the other hand, has declined by 1,500 since its 1988 high of 52,500, and is expected to hover between 50,000 and 51,000 through 1996.

G-stores completely altered the playing field for the convenience store industry

Management Horizons' research finds that approximately 25% of U.S. households shop convenience stores (either c-stores or g-stores) weekly, with an additional 20% shopping at least once a month. Even with 24-hour supermarkets becoming commonplace, and retail hours of operation constantly expanding, consumer need for convenience stores apparently still exists.

A Fundamental Shift

The new competitive reality is that the recent downturn in the c-store segment is not temporary. It is, in fact, a fundamental shift in the way the convenience store industry operates and will operate.

What has happened to the traditional convenience store? From the late 1970s through the mid 1980s, it seemed that if there wasn't a mini-mart on the nearest corner, one would spring up overnight. Now, stores are closing faster than they are being built, and the ones that are still open are often located in older, less desirable locations.

Three key factors account for c-stores' changing fortunes: g-stores' rapid expansion, c-stores' financial woes, and a demographic market shift.

During a time of narrow gasoline margins, petroleum marketers turned to g-stores for add-on sales and profits. Seeing favorable results, the oil companies have rapidly expanded their presence in the convenience store marketplace.

Many c-store chains—Southland, Circkle K, National Convenience,

CONVENIENCE STORES

and Cumberland Farms—have withered under Chapter 11, neglecting needed physical and systems upgrades in their existing stores. As they emerge from bankruptcy (Southland has already reorganized), they will have to act quickly to catch up.

Demographic changes have played a role in the souring fortunes of c-stores. A decline in the number of men aged 18 to 34 has caused c-store operators to lose much of their primary customer base. Without revising their product mix to appeal to women or older customers, the future for c-stores looks bleak.

In general, the c-store offer is not in line with the value orientation of the 1990s consumer. According to John Roscoe, a founder of the National Association of Convenience Stores, "C-stores sell less for more while the rest of the retail world is trying to sell more for less."

G-Stores Set A New Standard

Just as McDonald's revolutionized fast food, g-stores completely altered the playing field for the convenience store industry. G-stores are clean and brightly lit, the help is courteous, and the overall atmosphere is superior to the stereotypical c-store model.

Additionally, g-stores are experimenting with micro-marketing to match store formats (size, product and layout) to specific urban, suburban and highway locations. Shell's new ETD (Experience The Difference) concept is designed around this micro-marketing strategy.

G-stores have invested heavily in technology. POS scanning, space planning and inventory management packages are making their way into the stores, while the gas pump itself has become a point-of-sale opportunity.

Electronic payment at the pump is increasingly popular at outlets. Consumers love it, but operators worry about losing merchandise sales. So, increased merchandise signage, menu boards and intercoms (for ordering in-store merchandise) at the pump are all being tested. Some chains are even experimenting with drive-up windows. Orders are placed while the customer pumps gas, and the entire transaction is completed at the window.

Survival Tied to Innovation

What must c-stores do to survive?

The keys lie in innovation and differentiation. C-store winners for the 1990s will have to stand out from the present field. They will need to embrace value-driven consumerism and rely on niche marketing, better systems support and a targeted product mix.

Many c-store chains have already taken a niche market approach to their stores. Stop n Go has adopted a strategy of revamping some stores to target one of three groups: upscale, mainstream or Hispanic. The results so far have been positive—overall sales are up 20%, and sales to women are up as much as 100% in some stores.

Many experts believe that c-stores can survive only by exploiting a market niche while providing a state-of-the-art gasoline offer.

Circle K, however, is banking its success on providing a consumer-driven traditional c-store offer, from far fewer locations. President John Antioco believes his firm has plenty of room for improvement without having to reinvent the wheel.

Upgraded foodservice is also proving to be very effective for c-stores. Not only does it offer attractive gross margins (up to 70% to 80%), but it presents an opportunity to draw new and potentially more valuable customers, most notably women and baby boomers.

Southland, with cash from its new Japanese owners, has converted 50 Texas 7-Eleven stores into brightly lit outlets resembling mom-and-pop groceries. Unsuccessful products have been replaced by fresh produce, pastas and salads in an attempt to attract new customers.

Foodservice is not the sole domain of the c-stores, however. G-stores are looking at a variety of concepts, from targeted menu items to combination g-store/fast-food outlets being tested between both Amoco and Exxon and Burger King.

Industry Outlook

The convenience store industry appears to have a relatively bright future. Sales growth is projected to average over 6% annually through 1996, driven by double-digit increases in the g-stores segment. With store growth projected at only 2.7% annually, space productivity should rise as well.

G-stores have assumed industry leadership in serving the mass market. They are generally nicer stores, in better locations, and attract a more valuable customer.

Conversely, many c-stores have been left behind to battle for niche markets, providing a specific offer to a specific audience. C-store operators may not see this as a bright forecast, but for many of the chains who have tried it, the target market route has brought success.

—**Karl Haller**

Uni-Marts Leads Convenience Store Segment

Company	Fiscal Year End	% Change Sales	% Change Op. Inc.	Op. Inc. % Sales	Avg. Sales Per Store	Sales Per Gross Sq. Ft.	Op. Inc. Per Gross Sq. Ft.	% Op. Inc. ROA	% Change Compound Sales 1987-91	% Change Compound Op. Inc. 1987-91
Southland	12/31/91	−4.1	529.4	1.7	$1,277,636	$456	$ 7.82	5.3	− 0.2	DNA
Dairy Mart	2/1/92	−2.8	− 0.4	2.6	835,007	348	8.92	8.9	2.0	0.2
Casey's	4/30/92	4.5	68.9	5.3	759,199	564	30.82	14.6	15.9	10.3
Uni-Marts	9/30/91	6.3	4.6	5.4	756,678	299	16.14	14.6	21.3	26.5
FFP Partners	12/29/91	−2.5	− 3.4	2.7	847,943	DNA	DNA	11.5	31.3	10.8
Sunshine-Jr. Stores	12/26/91	7.6	DNA	DNA	733,034	DNA	DNA	DNA	4.9	DNA
Composite	1991	−3.0	165.3	2.0	1,140,787	448	9.60	6.3	1.6	55.0

DNA = Does not apply because of loss in current or comparable period.
Source: Management Horizons

With the fast growth of the *home office market, sales of personal computers and other home office electronics products are steadily increasing.*

Weak economy makes Hard Times for Hard Lines

Perhaps no one has been harder hit by the continued weak economy than the stores specializing in hard lines. Stagnant incomes and low consumer confidence prove to be poor conditions for purchasing new appliances, furniture and electronics.

Sales for the retailers of these products dropped 4% in 1991, after a mostly flat 1990. Major companies reduced their store counts; a record number filed for bankruptcy. Even some of the more innovative retailers, accustomed to double digit growth rates in the 1980s, have scaled back expansion plans.

A spike in new home purchases during the last quarter of 1991 generated a surge in sales for many hard lines retailers in the first quarter of this year. But the housing market has since sputtered. In the long term, those hoping for a return to 1980s annual growth rates of 10% or more are likely to be disappointed: slower household formation and slow retail spending growth in addition to increasing competition from discounters and warehouse clubs, will likely slow sales for this segment to less than 5% a year for the next few years.

A tepid economy caused lukewarm spending in consumer electronics stores

Home Furnishings: Some Gains, Mostly Losses

1991 was a dismal year for most furniture and home furnishings retailers. Retail sales dropped 5.3% for the year compared to an already weak 1990. The bankruptcy courts claimed Seaman Furniture, RB Furniture (both "top 20" furniture chains) and several other chains, especially along the economically-troubled East Coast and in California.

There were some isolated bright spots. The "lifestyle" specialist segment grew over 10% last year, due primarily to the good fortunes of two companies: IKEA added two U.S. stores and increased sales by 30%; Bombay Co. increased its store count by 27 and its sales by 25%. The consumer appeal of other lifestyle retailers, however, may have plateaued. Pier 1's same store sales dropped 3.3% in 1991. Poor sales growth continued to plague This End Up, Workbench and Conran's Habitat. Housewares specialist Williams-Sonoma eked out 0.5% same store

Best Buy Edges Circuit City In Per Store Sales Among Hard Lines Retailers

Company	Fiscal Year End	% Change Sales	% Change Op. Inc.	Op. Inc. % Sales	Avg. Sales Per Store	Sales Per Gross Sq. Ft.	Op. Inc. Per Gross Sq. Ft.	% Op. Inc. ROA	% Change Compound Sales 1987-91	% Change Compound Op. Inc. 1987-91
Best Buy	2/29/92	39.8	71.1	2.0	$14,300,000	$ 515	$10.40	5.6	20.6	19.2
Bombay Company	6/30/91	24.6	1.1	7.2	453,000	NA	NA	15.0	19.9	21.1
Circuit City[1]	2/29/92	17.9	29.0	4.8	13,512,019	1,083	NA	13.3	20.3	12.0
Heilig-Meyers	2/29/92	15.9	29.3	6.2	1,254,782	58	3.61	4.4	14.5	14.9
Highland Superstores[2]	1/31/92	−33.2	7.9	− 1.3	9,222,000	635	− 7.38	− 3.7	− 6.5	DNA
Kay-Bee	12/31/91	9.9	NA	NA	853,483	216	NA	NA	20.2	NA
Pier 1 Imports[2]	2/29/92	4.3	55.8	7.0	1,017,622	136	9.61	10.6	15.7	6.9
Tandy	6/30/91	1.4	−31.7	7.2	NA	NA	NA	10.6	7.2	− 9.1
Toys "R" Us[3]	2/1/92	11.1	− 0.3	9.5	9,493,671	206	22.52	12.8	18.2	13.5
Williams-Sonoma[2,4]	2/02/92	8.9	−83.1	1.1	1,131,709	484	NA	2.5	21.4	−19.1
Composite	1991	8.1	− 8.9	6.9	3,290,585	196	15.66	10.9	13.9	3.2

[1] Sales per sq. ft. are based on superstore selling area only. [2] Sales per sq. ft. are based on selling area only. [3] Sales per store and sales and operating income per gross sq. ft. are for domestic toy stores only. All other figures are for total company including Kids "R" Us and international operations. [4] Sales per store and sales per sq. ft. exclude catalog sales and revenue from California Closet. NA = Not available. DNA = Does not apply because of loss in current or comparable period.

Source: Management Horizons

sales growth for its most recent fiscal year, while net earnings fell 83%.

A bright spot for conventional, full-line furniture retailers is Heilig-Meyers. In 10 years, the company has nearly quintupled in size to 374 stores, all in small towns across the Southeast. Four-fifths of Heilig-Meyers' customers take advantage of the company's in-house credit program, which enables small-town incomes to purchase big-ticket items. Last year, same store sales increased 5.7%, while earnings jumped 30%.

The company's stated mission is to be "the preeminent small town furniture merchant." If this formula is vaguely reminiscent of Wal-Mart's early strategy in discounting, the thought is not lost on Heilig-Meyers' management, which often places its new stores near Wal-Marts.

Levitz, the nation's largest furniture chain, has been unable to coax more sales from its 66 warehouse showrooms and 50 satellite units. The company suffered a decline in same store sales of 3.4% in 1991, after experiencing a 5.8% decline in 1990. Two other large full-line retailers, Haverty's and Wickes, also lost ground in 1991.

Last year was probably the most difficult as a whole on the manufacturer gallery store networks, such as Ethan Allen, most of which are independently operated. Lacking the resources to "tough out" extended downturns, the major gallery stores lost 0.6% of their store base in 1991.

Most retailers should find 1992 a better, but not a terrific, year. Sales are growing at 5% above last year. Many companies have reported stellar first quarters. Continued weakness in the housing market, however, can only dampen demand for the remainder of the year.

Long term, the future presents both significant threats as well as opportunities to furniture specialists. Overall growth will be slow, due to the slowing rate of new household formation. Discounters and warehouse clubs can be expected to take an increasing share of total sales. The growing use of video catalogs is possibly the most promising opportunity, particularly for custom furniture stores. Video catalogs allow consumers to experiment on a computer screen with fabrics on frames and get price quotes.

The more sophisticated of these systems are linked directly with the manufacturer, will transmit the order, and will verify the delivery date. This speeds transaction time and eliminates much of the uncertainty with custom-ordered, big-ticket items.

At last count (April), 243 retailers had video catalog systems installed, and vendors estimate a total of 1,500 installations by year end. If successful, video catalogs could transform the industry.

Consumer Electronics: In a Flat Market, a Battle for Market Share

A tepid economy and a dearth of hot technologies caused lukewarm spending in consumer electronics specialty stores in 1991. Growth in sales of home office products was offset by declines in home entertainment technologies. Coming off a poor 1990, many companies retrenched. Radio Shack closed over 175 stores, Highland Superstores halved its operations, 47th Street Photo filed for bankruptcy and Newmark & Lewis folded.

On the other hand, the flat market did not faze the more aggressive superstore chains. Circuit City, Best Buy and The Good Guys all increased their store counts, revenues, earnings and comparable store sales for their latest fiscal years. Best Buy experienced an impressive 14% same store sales growth, and The Good Guys generated 11% growth. Silo reduced its store count by 1 in 1991, but increased its sales by 14%. All plan continued expansion in 1992.

The competition among these four companies is intensifying, with over 520 superstores nationwide among them. A costly battle is raging in the Los Angeles market, where last year Silo and The Good Guys opened 22 stores to contest

Circuit City's well-entrenched 26-store presence. Dallas, Houston, San Francisco, and St. Louis are examples of other very competitive markets.

Tandy, the nation's largest consumer electronics retailer, is in the process of remaking itself. Its flagship operation, Radio Shack, accounted for 83% of the company's retail sales in the fiscal year ended June 1991, compared with 99% in 1985.

Tandy's other retail nameplates (McDuff, VideoConcepts, The Edge in Electronics and Computer City) all feature popular name brand electronics. Its latest retail format innovation, The Incredible Universe, will debut this September with store openings in Portland, Ore., and Arlington, Texas. This 160,000-sq.-ft., superstore is designed to be "the next step in consumer electronics/appliance retailing," according to Tandy executives.

An important trend in consumer electronics retailing is the growth in sales of personal computers and other home office electronics. Home office now accounts for 22% of Best Buy's sales, up from 11% two years ago.

Despite the fast growth of the home office market, the outlook for this category in consumer electronics specialty stores is increasingly threatened by computer and office supply superstores, which are rapidly expanding both their geographic presence and their category dominance in home office.

Another key trend is the increasing competition from the discount stores and warehouse clubs. Four of the top 10 sellers of consumer electronics are discounters Kmart, Wal-Mart and Target, as well as fast-growing Sam's Wholesale Club. Over the long term, growth in sales is driven, in large part, by technology. Sales for CD players and camcorders have matured, and prices continue to decline. Home office is picking up for those devoting effort to the category, but many analysts feel that this fall's new consumer technologies are unlikely to inspire a new wave of consumer spending.

Although sales grew 6% for the first quarter of this year, Management Horizons is forecasting only 3% growth for consumer electronics and appliance retailers for the year.

Toys: The Toys "R" Us Juggernaut

Retail sales for toy specialists were slow for the second straight year, but it appears nothing can stop Toys "R" Us. Over the past decade, Toys "R" Us' revenues have grown at a compound rate of 23% annually, and earnings 21%. They currently ring up nearly $25 for every $100 spent on toys in the United States.

Interestingly, a near-monopoly has also formed in the malls. Kay-Bee's 1,270 stores dwarfs its nearest mall-based competitor, 25-store chain F.A.O. Schwarz. Virtually all of Kay-Bee's 1991 expansion was through the acquisition of K&K Toys, the nation's 6th largest toy specialty chain.

Because Kay-Bee's existing stores last year suffered from low sales and profitability growth, the company this year is focusing on rationalizing and improving the profitability of its current store base. Thus far, the chain has reported double-digit comparable store gains.

But for those worried about having to pay monopoly prices on Larami's Super Soaker (it's a water gun, for those of you who don't get out much), don't. The big three discounters (Wal-Mart, Kmart and Target) are picking up a growing share of toy sales and present a very real competitive threat to the specialists. Each is building larger stores that devote more space to toys, and is expanding into new territories. Wal-Mart, with a 10% market share of toy sales, represents a particular threat as it expands into Toys "R" Us' strongholds in California and the Northeast.

Sporting Goods: Sports Authority Playing to Win (Big)

1991 marked a significant turning point in the sporting goods specialty retailing business. For the first time in over a decade, a majority of smaller operators confessed to negative or flat sales—and are generally pessimistic about 1992.

Herman's World of Sporting Goods, the nation's largest sporting goods chain, lost money on $825 million in sales and has joined three other major chains (Big 5, MC and Gart Bros.) on the selling block.

The Bombay Co. increased its store count by 27 and sales by 25%.

But continuing to grow, and growing fast, is the category-killer superstore, which typically ranges from 40,000 sq. ft. to 80,000 sq. ft. in size.

The preeminent superstore is Sports Authority, which doubled its stores and sales in 1991. Owned by Kmart since 1990, the chain plans more stores this year for a total of 57, and quadruple its sales to $1 billion by 1995. Its ceo, Jack Smith, wants the chain to become the Toys "R" Us of sporting goods.

Sports Authority's success, however, is drawing plenty of competition. Sportsmart, Sportstown and Oshman's are in the process of adding a total of over 15 superstores this year.

—Ken Hewes

To build market share, warehouse clubs have increased their marketing efforts. Industry sales are projected to reach $44 billion by 1995.

Marketing Strategies Come to Warehouse Clubs

The warehouse club industry is now facing the consequences of its rapid growth during the 1980s. Market saturation is increasing. Head-to-head competition is challenging the industry's traditional operating model. At the same time, indirect competitors are responding to the clubs' presence by offering warehouse-style products and prices. As a result, warehouse clubs have increased their marketing efforts in order to differentiate themselves from their competitors and build market share.

Once considered removed from mainstream retailing, the warehouse club segment has emerged in the 1990s as a powerful retailing force. Sales reached $26.6 billion in 1991, a 22% increase over 1990. Sales grew at an annual rate of 28% from 1986 to 1991. The total number of clubs open increased to 478 at year-end 1991, a net gain of 70 units over 1990 and more than double the 225 units open in 1986.

The growth has come from an increasingly concentrated field of players. By the end of 1991, only seven companies comprised the industry. Four major players—Sam's Club, Price Club, Costco and Pace—dominated by generating 94% of 1991 sales and operating 91% of the units. Acquisitions have been the primary factor driving the consolidation of the industry.

> The warehouse club has emerged in the 1990s as a powerful retailing force

Since 1987, over one-fourth of the industry's sales volume has been involved in merger and acquisition activity. Additional consolidation is likely in the first half of the 1990s.

Marketing for Market Share

Market saturation is increasing with direct competition between warehouse clubs now commonplace in numerous major metropolitan areas. Clubs are more vulnerable to head-to-head competition than other formats due to their operating models—operating at low costs does not allow for many distinguishing characteristics.

Warehouse clubs tend to resemble one another in terms of size, location, product presentation and product offer. In addition, supermarket chains such as Giant Food and Hannaford Bros., have introduced power aisles featuring warehouse-style products.

As direct competition has intensified and indirect competition heats up, attempts to differentiate each company's offer has necessitated an increase in marketing efforts by warehouse club operators. Among the tactics being tried:

- Merchandise assortments have been expanded to capture increased sales from existing members. Perishable food sections offering fresh produce, baked goods and meats have been added to many clubs. In three Costco units, a 35,000-sq.-ft. home improvement department has been added with 600 skus of hard lines including lumber, building materials, hardware, tools and paint. Price Club has initiated a private label program on selected goods.

Services such as optical centers,

pharmacies, travel arrangements, photo developing, automobile buying programs and quick oil changes are now offered by many clubs.

- Advertising touting specific product offerings and membership benefits.

Direct mail pieces are also used to promote clubs. When PACE opened a Dallas unit in the fall of 1991, it promoted its no-fee membership policy to attract Sam's Club members who had been displaced by Sam's conversion to paid-only memberships.

This spring, Warehouse Club ran radio spots promoting a special open house day when non-members could shop its clubs and get acquainted with the concept.

- Location criteria is being re-examined. Traditionally, clubs have been located on the outskirts of retail or business districts to get large parcels of land with lower rent. Price Club, however, has opened a warehouse in a strip center. The company hopes that a more convenient location will increase volume to offset the increased occupancy costs.
- Membership warehouse clubs have moved from primarily appealing to small businesses to seeking a balance between business and individual consumer members.

The proliferation of warehouse clubs has brought the format within the reach of more consumers as well as businesses. Increased accessibility has promoted retail patronage for personal expenditures. Although an estimated 65% of club shoppers are non-business consumers, they account for only 30% to 35% of club sales. However, it is widely acknowledged that business members also purchase products for personal use.

Membership: Changing the Rules

Qualifications for membership and member fee structures have changed in recent years.

All clubs offer paid memberships with fees averaging $25 per year. A decreasing number of clubs offer no-fee memberships, which entitle qualified consumer members to shop the club but pay an additional percentage above posted prices. Sam's Club began phasing out its no-fee memberships in 1991 and expects to have only paid membership by January 1993. Price Club and the majority of Costco and BJ's locations offer paid membership only. Paid membership promotes a more loyal, less transient customer base.

Just as conventional retailers strive to generate more sales through increased store traffic, member-only clubs can increase volume and profits by increasing the number of eligible members.

Clubs have broadened their membership reach through programs that go beyond traditional practices of accepting only business owners and qualified group members such as government employees, hospital workers and other employee groups. Several clubs now offer programs in which a current member can give a membership to another individual.

Industry Outlook

To accommodate warehouse clubs' expanding product assortment, store sizes are increasing. Newer Price Clubs occupy as much as 200,000 sq. ft., and Sam's has opened units as large as 150,000 sq. ft. At the same time, however, Wholesale Depot has attempted to find a niche within the warehouse club industry by operating 60,000-sq.-ft. clubs in small urban areas to avoid the competitive major markets.

Industry projections call for Sam's Club, Price Club, Costco and PACE to open more than 90 additional clubs in 1992. Meijer Inc., operator of large food and general merchandise combination stores, plans to open its first warehouse club, SourceClub, in the fall of 1992.

Some players are also looking to foreign countries for future growth. Price, in a joint venture with Comercial Mexicana, opened the first Price Club de Mexico in early 1992. Wal-Mart (Sam's Club parent) opened two Club Aurreras units in Mexico through a joint venture with CIFRA, Mexico's largest retailer. Costco plans to open outlets in Great Britain by mid 1993.

New domestic outlet growth will increasingly occur in smaller or more competitive markets, reducing same store sales levels for new outlets. Management Horizons projects industry sales to reach $44 billion by 1995.

—Edd Johns

Price Club Still the Warehouse Club Productivity Leader

Company	Fiscal Year End	% Change Sales	% Change Op. Inc.	Op. Inc. % Sales	Avg. Sales Per Store	Sales Per Gross Sq. Ft.	Op. Inc. Per Gross Sq. Ft.	% Op. Inc. ROA	% Change Compound Sales 1987-91	% Change Compound Op. Inc. 1987-91
Sam's Club	1/31/92	43.3	49.1[1]	2.6[1]	$ 52,978,652	$481[1]	$12.50[1]	NA	36.6	39.4
Price	8/31/91	24.8	5.2	3.0	104,731,746	902[2]	27.10[2]	10.7	19.5	11.7
Costco	9/1/91	28.5	45.2	2.8	78,428,571	713[2]	19.70[2]	12.6	39.7	71.2
PACE	1/29/92	58.9	225.0[3]	1.1[3]	44,193,939	426[2]	4.60[2,3]	3.7[3]	40.4	54.9
BJ's	1/25/92	24.6	51.3[3]	1.2[3]	51,150,000	483[2]	5.80[2,3]	7.4[3]	26.2	NA
Warehouse Club	9/28/91	− 8.5	−15.0	0.4	24,260,000	241	1.00	2.0	1.5	DNA
Wholesale Depot	12/31/91	103.0	DNA	0.0	19,257,143	320[2]	0.10[2]	0.1	NA	NA
Composite	1991	35.4	35.3	2.4	61,719,583	567	13.70	9.2	31.0	28.0

[1] Based on Alex. Brown & Sons estimates for Operating Income. [2] Calculated from the average club size. [3] Company reported Operating Income

NA = Not available. DNA = Does not apply because of loss in current or comparable period.

Source: Management Horizons

***A/X: Armani Exchange** stores reflect the value trend for apparel stores.*

Value-Priced Apparel Stores Attract Recession-Weary Shoppers

1991 was a year that many specialty apparel retailers might wish stricken from their financial records. During the year, real consumer spending on apparel declined for the first time in nearly a decade. Domestic apparel spending decreased from $187.4 billion to $182.9 billion, a decline of 2.4%.

The recession has been particularly painful for apparel retailers because it has affected the affluent white collar population more severely than past recessions did. This segment has historically had the most discretionary income to spend on apparel. Their spending fueled apparel sales growth in the 1980s.

Recession notwithstanding, apparel retailing has been experiencing some fundamental changes in recent years. Specialty stores and department stores have lost apparel market share, while discount stores and off-price stores have gained share.

Consumer trends influencing this shift include declining shopping frequency at malls, decreasing formality of dress requirements in the workplace, and societal adoption of more frugal values in the 1990s.

Consumer spending on apparel is strongly influenced by economic factors

Time to Fall Back, Regroup

In the hostile economic environment, there have been a growing number of retail bankruptcies. They totaled 17,008 in 1991, according to record keepers at Dun and Bradstreet. Many of the afflicted were small specialty apparel retailers without the deep pockets of a corporate parent to sustain them through the recession.

Some larger retailers were forced to close unprofitable stores. For example, U.S. Shoe Corp. closed its 26-unit T.H. Mandy women's apparel chain after the Christmas selling season. Similarly, TJX Cos. announced plans to close approximately 75 of its 576 Hit or Miss women's apparel stores.

At the same time, some stronger players grew by acquiring the assets of weaker players. Merry-Go-Round, acquired menswear retailer Club International from the troubled Canadian retailer Dylex Ltd. Likewise, Jay Jacobs Inc., purchased 74 Ups 'N Downs junior women's apparel stores from U.S. Shoe Corp.

"Family" Apparel Stores Gain Share

In 1991, menswear retailers collectively experienced losses in real sales of 7.9%. Men's apparel store sales have been declining for the past several years, largely because of reduced demand for their staple product, business suits.

Real sales at women's apparel

stores also declined in 1991 by 2.6%, after several years of growth. Manufacturers' and retailers' price increases and fashion mistakes in a recessionary climate helped produce this decline.

The one bright spot was among family (or unisex) apparel retailers, which collectively experienced a modest gain in real sales of 2.2%. Many family apparel retailers prospered by offering moderate prices and convenient "one stop" shopping for mom, dad and kids alike.

"Value" Positioning for the Times

A common thread among apparel retailers who prospered in 1991 was a "value" positioning. However, value for consumers does not necessarily mean "lowest price." Instead, it means offering the right fashions and quality at the right price for the target consumer.

Off-price family apparel stores such as Marshall's, TJ Maxx, Filene's Basement, and Fifty-Off Stores attracted consumers with extensive offerings of branded goods at discounted prices.

During the recession, non-mall stores such as Clothestime and Charming Shoppes', and Fashion Bug have typically fared better than their higher-priced, mall-based competitors.

Another additional factor working in favor of these non-mall retailers is a subtle shift in consumer shopping patterns from mall to non-mall locations for personal and family apparel.

Gap Inc. weathered the 1991 recession better than most mall-based apparel retailers, ending the year with record growth in sales and profits. Its Gap, Gap Kids, Baby Gap and Banana Republic labels grew in popularity by continuing to offer "affordable style" to consumers. Vertical integration and advanced information systems have enabled the company to keep prices down.

Gap Steals the Show; Charming Shoppes and Ross Outperform Competitors

Company	Fiscal Year End	% Change Sales	% Change Op. Inc.	Op. Inc. % Sales	Avg. Sales Per Store	Sales Per Gross Sq. Ft.	Op. Inc. Per Gross Sq. Ft.	% Op. Inc. ROA	% Change Compound Sales 1987-91	% Change Compound Op. Inc. 1987-91
Burlington Coat Factory	6/29/91	12.3	8.2	4.9	$5,706,010	$100	$ 4.87	9.8	16.6	8.1
Charming Shoppes	2/1/92	15.2	46.7	8.1	929,980	124	9.99	12.9	12.4	5.6
The Gap	2/1/92	30.3	57	14.9	2,182,750	481	71.97	32.6	24.1	30.6
The Limited[1]	2/1/92	17	2.2	11.6	1,546,200	329	38.15	20.8	14.9	14.9
Melville[2]	12/31/91	6.8	− 7.1	6.9	2,051,330	219	15.12	17.1	9.5	0.9
Merry-Go-Round	2/1/92	21.2	−39.1	4.8	1,014,880	NA	NA	12.1	31.4	18
Petrie Stores	2/1/92	5.7	32.3	1.9	826,430	NA	NA	2.9	2.2	−13.6
Ross Stores, Inc.[1,3]	2/1/92	16	48.4	7.2	4,775,140	214	15.33	18.6	13.2	19.4
TJX	1/25/92	12.7	− 0.4	5.4	2,766,010	215	11.6	13.4	13.8	7.7
U.S. Shoe	2/1/92	2.1	DNA	3.9	826,790	248	9.55	13.7	4.7	20.6
Composite	1991	14.1	DNA	8.4	1,590,238	213	16.68	17.7	13.1	13.0

[1] Sales and operating income per sq. ft. based on selling space only. [2] Apparel retailing operations only. [3] Leased department sales excluded.

NA = Not available

DNA = Does not apply because of loss in current or comparable period.

Source: Management Horizons

Gap continued to expand its store count, making it an increasingly convenient shopping alternative to consumers by simply being in more locations. Many of these are non-mall locations such as Town Square Wheaton, an anchorless, open-air fashion center which opened in Wheaton, Ill. last spring.

Further evidence of consumers' desire for value-priced shopping alternatives is the continuing growth of off-price and outlet shopping centers. In the last several years, both types of centers have increased in number at a faster rate than conventional malls or shopping centers. In 1991 the number of conventional malls and shopping centers increased by 4%, while the number of outlet centers grew by 12%.

New Stores Bet that "Value" Trend Will Continue

Despite the depressed economic environment, a number of new apparel store concepts were launched in recent months. The two which attracted the most media attention—Giorgio Armani's A/X: Armani Exchange and Everyday Hero, a product of Dayton Hudson's Target division—were similar in that they both carry casual apparel for men and women at value prices, albeit at different ends of the price value equation.

Industry Outlook

Will apparel sales improve with the economy? Yes, somewhat, because consumer spending on apparel is strongly influenced by economic factors such as employment and income growth. Management Horizons projects real growth of 1% in 1992 and 2% in 1993.

However, gains in sales will not be distributed equally among all apparel retailers. In the next several years, prospects are brighter for family apparel retailers.

When the economy improves, will consumers continue to be as value-conscious in their apparel shopping as they are today? Yes, many of them will be. Management Horizons believes that consumers will spend their apparel dollars more cautiously in coming years for a variety of reasons unrelated to the recession. Current demographic and attitudinal trends lead to more modest spending on all discretionary items including apparel, in marked contrast to the extravagant spending of white collar "yuppies" of the 80s.

—Laura A. Richardson

Welcomes You!
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Thank You For Shopping Lowe's
Lowe's Super-store Welcomes You!
Lowe's
Lowe's Super-store Welcomes You!
Lowe's
Power Tools
Contractor Accounts
Lawn
Electrical
10
9

***With the prospect of slow** sales growth for the home improvement industry, retailers in the segment will have to move toward building market share.*

An Expanded Focus for Home Improvement Retailers

After riding a wave of strong economic and demographic factors, the home improvement retailing industry now faces the prospect of slow sales growth in the years ahead as those factors rapidly fade. In order to prosper, industry participants will have to look toward building market share rather than latching onto a growing market. That will entail improving service and offering more services that complement their lines of goods.

More importantly, home improvement retailers will need to adjust their product emphasis to the changing dynamics of our society. Specifically, the decline in turnover in the housing market will reduce demand on the part of new home owners. Instead, a greater share of demand will stem from stable homeowners interested in redecorating.

Home improvement retailers have always looked to a robust housing market to stimulate sales. Traditionally, recessions have been followed by a burst of housing construction and a big jump in buying and selling of existing homes. This, in turn, was followed by a large increase in demand for home improvement products.

> If people are moving less often, they may choose to spend more on redecorating

After this recession, however, things will be somewhat different. The reason is demographics.

At the end of the baby boom in 1964, the birth rate in the United States declined dramatically and stayed low. Twenty-two years later, the first post-boomers graduated college and started looking for jobs and homes. It is not surprising that, ever since 1986, the labor force has been growing rather slowly.

Now those post-boomers are looking for homes. And with fewer of them, there is likely to be a lower level of housing activity after this recession than after most other recessions. The net result? Lower spending on home improvement.

Housing Prices

Another negative influence on spending will be housing prices. In the past, rising real housing prices contributed to a sense of increasing wealth on the part of homeowners. This, in turn, depressed the need for personal savings and stimulated spending on home improvements. It also contributed to greater turnover in the market for existing homes. Housing market activity has always been greatest when housing prices were rising the fastest.

In the 1990s, however, demographics and government policy will combine to push inflation adjusted prices south. First, a smaller number of first time home buyers will mean a smaller market for new homes. At the same time, as the baby boomers reach middle age, they will probably move less often than they did when they were younger. Consequently, the market for existing homes will be smaller.

Naturally, there will be exceptions in certain communities. Yet the overall effect will be to dampen consumer perception of wealth, encourage greater personal savings, and discourage spending on home improvements.

There is one important caveat to this. If people are moving less often, then they may choose to spend more on redecorating their existing homes. To the extent that this is true, it will partially offset the negative impact of less housing turnover.

Home Decor As An Emphasis

Yet another reason for the tough market conditions for a number of the hardware/home improvement players has been the result of sharper competition, much of it in response to the growth and success of Home Depot. While continuing to expand its proven formula, this pioneering company is now experimenting with a new merchandise focus.

The store is being positioned to serve the needs of a wide range of customers from designers and subcontractors to the do-it-yourself homeowner. Building off the company's positive experience with professional quality staffing, the store has certified American Society of Interior Designers (ASID) available to assist consumers.

The merchandise assortment, too, is significantly broader in the home decor categories than in a traditional Home Depot. Major presentations of window treatments, wallpaper, flooring and lighting are included. Home Depot Expo is being labeled by the company as a laboratory store in order to test new home decor ideas for the traditional Home Depot stores.

HomeClub
WE HAVE THE STOCK

***HomeBase is helping** customers to visualize their remodeling projects.*

Competitive Response

Home Depot's competitors are not sitting idle. Other home improvement retailers have responded to consumers' increasing home focus and are developing their own new formats and concepts.

- The Lowe's superstore, a 100,000-sq.-ft. warehouse home center located in Charlotte, N.C., was created as a format to preempt competition in smaller southern markets where Home Depot is not soon likely to go. The superstores are being merchandised to emphasize the DIY consumer, rather than focus on the trade.
- Hechinger has developed a new store concept intended to appeal to both DIYers and the trade, although the emphasis is on the former.
- Pay 'N Pak offers decorator product lines and a specialty store feel in its new prototype in Puyallup, Wash. There are tables and chairs in the paint and decorating department for perusing wall covering sample books, and displays of coordinating fabrics that the store can have made into draperies or bedspreads.
- To help customers visualize their home decorating and remodeling projects, Fullerton, Calif.-based HomeBase (formerly HomeClub) offers stylish kitchen and bath displays to show the latest trends.

Industry Outlook

We anticipate moderate growth in sales for this retail category. Despite the weak housing outlook, the industry will be helped somewhat by the fact that people will be more settled. Instead of moving, some families will invest money in improving and redecorating existing homes. Home improvement success stories in the 1990s will probably involve a strong emphasis on home decor and the services that support decor related goods.

—Ira Kalish
and Julie Nelson Forsyth

Home Depot and Lowe's Surge in Home Center Field

Company	Fiscal Year End	% Change Sales	% Change Op. Inc.	Op. Inc. % Sales	Avg. Sales Per Store	Sales Per Gross Sq. Ft.	Op. Inc. Per Gross Sq. Ft.	% Op. Inc. ROA	% Change Compound Sales 1987-91	% Change Compound Op. Inc. 1987-91
Builders Square	1/29/92	8.4	27.6	3.6	$14,229,167	$178	$ 6.42	11.5	NA	NA
Grossman's	12/31/91	− 0.8	DNA	1.4	5,563,000	175	2.39	3.2	− 7.0	−27.5
Hechinger	2/1/92	15.5	27.4	3.2	14,290,907	155	4.98	5.5	22.0	− 2.2
HomeBase	1/25/92	7.2	35.0	2.9	19,444,604	194	5.71	9.0	18.4	13.2
Home Depot	2/2/92	34.6	43.7	7.4	32,205,016	345	25.65	15.2	37.1	40.4
Lowe's[1]	1/31/92	7.9	− 7.6	6.0	9,939,015	406	24.13	12.6	5.8	8.2
Wolohan Lumber[1]	12/31/91	2.8	−21.9	4.6	6,014,158	219	10.19	10.8	7.4	− 2.1
Composite	1991	16.4	24.8	5.3	14,448,045	227	11.56	11.7	16.7	13.2

[1] Sales and Operating Income per sq. ft. ratios are based on selling space only
NA = Not available
DNA = Does not apply because of loss in current or comparable period.

Source: Management Horizons

Catalog Retailing Cools Down after Growth of 1980s

Coming Home
LANDS' END
DIRECT MERCHANTS

***Catalog retailers such** as Lands' End are segmenting catalogs to specific customer niches.*

It is likely that 1991 will go down as one of the worst years that the catalog business has ever experienced. Already faced with a leveling off of the explosive growth of the 1980s, 1991 brought with it escalating postal and shipping rates, war in the Persian Gulf and a painful recession.

A drop in the number of catalogs mailed annually and a decline in the percentage of the adult population shopping by mail or phone, are also illustrative of the slowdown occurring in the $82 billion industry (consumer goods and services).

After growing steadily from 5.8 billion catalogs in 1980 to 13.6 billion in 1990, the Direct Marketing Association reports that the number of catalogs mailed in 1991 declined to 13.4 billion.

The percentage of the adult population shopping by phone or mail declined from a high of 54.4% in 1990 to 52.6% in 1991, reports the Simmons Market Research Bureau.

Over the past two decades, catalog retailing has been a rapid growth segment of total retailing, fueled in part by favorable demographic and lifestyle trends.

> Catalogers are looking to grow through more intensive target marketing

As the 1980s progressed, consumers' mailboxes became inundated with catalogs. Established companies, like Spiegel, spun-off segments of their "big books" as specialty catalogs and developed new specialty offers. Numerous small catalogers emerged to share in the growth of the industry.

Sales grew at a compound annual rate of 12.5% from 1985 to 1990, reaching $81.7 billion in 1990. By 1990, the market was saturated. Many "look-alike" catalogs went unread, the growth in the number of new catalog shoppers leveled off, and the incremental gain to be derived from mailing to yet another prospecting list grew smaller and smaller. With so many catalogers serving the same customers, the companies began losing sales to one another.

Catalogers also are now faced with escalating costs of operation. Of particular concern are the postal rate hike. On the other hand, the specter of large costs associated with the implementation of a use tax has been lessened. Mail-order companies were hit in February 1991 by a 40% increase in third-class postal rates and a 16% hike in United Parcel Service delivery rates.

These increases were particularly devastating to smaller operators. Small firms are handicapped because they cannot take advantage of "worksharing" discounts offered to mass mailers by the U.S. Postal Service. Under one such arrangement, companies presort their mailings by address, saving time and effort for the post office and money for themselves. The more catalogs a company sends out, the bigger the discount it receives.

Many states had sought to collect tax from mail-order sales. But they were thwarted by a U.S. Supreme Court decision earlier this year that ruled states may not require out-of-state marketers with no substantial physical presence in the respective states to collect sales tax from their customers.

The Supreme Court left open, however, the possibility that Congress could enact such empowering legislation. But observers doubt such legislation would easily pass.

Catalogers are recognizing that they can no longer do business in the traditional way and are looking to grow through more intensive target marketing and better penetration of known catalog shoppers, while also investigating new ideas for controlling costs.

Database technology is making it easier to refine mailing lists and target only those customers who are most likely to make a purchase. By spending more time analyzing target customer data, catalogers are developing more sharply focused and appropriately priced offerings and are targeting specific consumer niches with ever more specialized books. This marketing approach, which encourages existing customers to spend more, has generated additional sales without the high cost of finding new customers.

To pare mailing and shipping costs, catalogers are taking a number of steps, including reducing the size of the catalog or the number of pages per book, or using lighter weight paper in order to qualify for letter rates; pruning duplicate and outdated addresses from mailing lists, and charging a fee for catalogs.

Several major companies are looking at less expensive, private delivery services, such as Alternative Postal Delivery Inc., and Publishers Express Inc., as alternatives to the U.S. Postal Service. Although these alternatives do not yet have national distribution capabilities, they can be used as supplemental delivery services.

Additionally, these companies offer marketing services such as a magazine ride-along program that enables catalog retailers to enclose selling pieces with magazines in polybags and a "pooled" or "composite" mailing that allows non-competing catalogers to mail together and share distribution costs.

Positioning for the Long Term

The unification of Western Europe and the democratization of Eastern Europe and other parts of the world, coupled with a high level of interest in American products and new toll-free telephone services, offer potentially big rewards for catalog companies willing to explore international markets.

L. L. Bean's catalog sales to Japan reached $14 million in 1991, up 20% from the previous year. The company plans to expand its reach to Japanese consumers by opening five stores in Japan in the next five years. The first store is scheduled for Tokyo this year. Bean, which is teaming up with Seiyu, Ltd., and Matsushita Electrical, is not required to put in any up-front money but will share in the profits.

Lands' End has mailed three catalogs exclusively to the British market and plans a fall test in France, while J. Crew is planning to expand its catalog operation overseas. It recently added a vice president of international development to guide the program.

Privacy issues threaten the catalog industry as increasingly sophisticated database technologies for gathering, storing and using consumer information create the potential for direct marketers to become more intrusive in consumers' lives. Already, a few states, including Washington, New Hampshire, and California, have considered or attempted to pass "opt-in" legislation. Such a law would make it illegal to mail a catalog or make a telephone solicitation to prospects without their prior consent. If passed, the implications for catalogers would be "life-threatening," according to the president of the Direct Marketing Association.

Seventh Generation
Choose from 300 great gifts that are good for the planet
Toilet Paper

***Seventh Generation's** catalog offers environmentally conscious products.*

Catalog retailers have begun to address growing consumer environmental concerns by printing catalogs on recycled paper, using packing materials that are better for the environment, offering environmentally conscious products and participating in "green movement" programs.

For example, The Nature Company uses its catalog for public service announcements for the Nature Conservancy and donates a percentage of profits to them as well. Seventh Generation, a Vermont-based catalog of environmental products, urges its customers not to purchase more than they need.

Industry Outlook

Although the recession caused a downturn in catalog shopping, Management Horizons expects catalogers to continue to pick up market share. The proliferation of highly specialized catalogs, the availability of a wide selection of merchandise, including merchandise not otherwise obtainable in local markets, and technology that enables the quick fulfillment of orders, all make this form of shopping attractive to consumers.

—Cathy Dybdahl

Fingerhut Most Consistent Catalog Retailer

Company	Fiscal Year End	% Change Sales	% Change Op. Inc.	Op. Inc. % Sales	% Op. Inc. ROA	% Change Compound Sales 1987-91	% Change Compound Op. Inc. 1987-91
Blair Corporation	12/31/91	3.1	– 6.3[1,2]	14.1[1,2]	33.2[1,2]	8.0	7.2[1,2]
Fingerhut Cos.	**12/27/91**	**13.7**	**4.7[1]**	**23.5[1]**	**38.5[1]**	**9.3**	**7.7[1]**
Horn & Hardart Co.	12/28/91	12.2	DNA	– 2.8	– 10.6	-18.4	DNA
Lands' End, Inc.	**1/31/92**	**13.1**	**100.6**	**7.2**	**23.9**	**19.4**	**6.5**
Lillian Vernon Corp.	2/29/92	1.3	– 0.7	8.5	13.2	6.5	0.6
Spiegel, Inc.	**12/31/91**	**– 2.9**	**– 47.3[1]**	**3.6[1]**	**3.6[1]**	**16.9**	**–8.4[1]**
Composite	1991	5.7	– 10.0	9.7	15.2	13.8	2.7

[1] Operating income includes finance revenue. [2] Operating income includes late payment fees, purchase discounts, recoveries on customer account receivables and miscellaneous income. DNA = Does not apply because of loss in current or comparable period.

Source: Management Horizons

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SEPTEMBER 1992

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Cover photo by Bob Perzel

SALES VARY WIDELY FOR RETAILERS IN JULY

STILL NO CLEAR SIGN OF REBOUND IN SPENDING

Retail sales in July varied widely from chain to chain, with no clear indication that a long-awaited rebound in consumer spending is on the way.

Michael P. Niemira, vp of Mitsubishi Bank's New York-based economic research department, said the mixed picture across the industry seemed to depend on the degree to which the retailer is promotionally oriented.

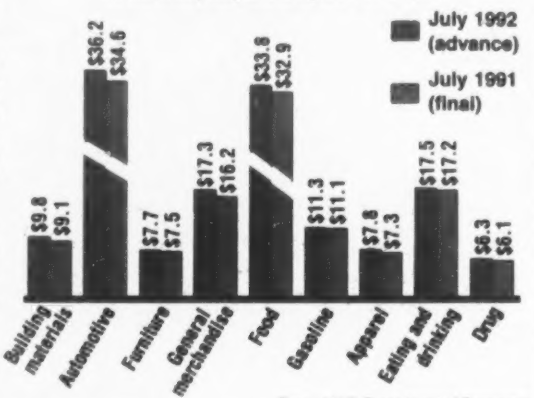
Due to the late Labor Day this year, he explained, several retailers shifted promotions into August that would normally have been in July.

For example, Federated Department stores, which reported flat comparable store sales in July versus its year-ago performance, attributed its soft results to a change in promotional calendars and reduced levels of clearance merchandise.

Dayton Hudson, which reported a comparable-store sales gain of 3.2%, also noted calendar shifting. Surging Clothestime, on the other hand, reported a 12% comp store gain.

JULY SALES

(Seasonally adjusted, figures in billions)



Source: U.S. Department of Commerce

CHAIN PERFORMANCE

Company	July '92 sales (000)	% change	% change comp. stores	YTD sales (000)	% change YTD	% change YTD comp. stores
Wal-Mart	$4,315,000	+28.0	+13.0	$24,678,000	+26.0	+12.0
Kmart	2,691,000	+13.3	+ 7.5	17,407,000	+ 8.5	+ 3.3
Sears	2,439,473	− 1.8	− 2.2	15,678,009	− 0.6	+ 0.5
Penney	870,000	+10.4	+ 9.7	7,582,000	+10.1	+11.3
Dayton Hudson	1,180,000	+11.8	+ 3.2	7,550,000	+11.3	+ 3.4
May	667,400	+ 8.9	+ 3.9	4,690,000	+ 6.7	+ 1.9
Melville[1]	694,058	+ 3.7	+ 0.9	5,537,565	+ 4.8	+ 2.7
Walgreen[5]	617,265	+11.3	+ 7.5	4,310,236	+11.5	+ 7.7
Federated	386,600	− 0.5	− 0.1	3,029,000	N/C	+ 3.1
Woolworth	395,000	− 0.2	+ 2.0	2,502,000	− 2.6	+ 0.9
The Limited	415,000	+ 4.0	− 6.0	2,905,000	+ 9.0	− 2.0
Circuit City[2]	245,200	+15.0	+ 6.0	N/R	N/R	N/R
The Gap	181,000	+18.0	+ 7.0	1,203,000	+19.0	+ 5.0
Mercantile	171,300	+10.7	− 4.8	1,188,200	+11.0	− 2.9
Neiman-Marcus Group[3]	119,400	− 0.4	− 3.9	1,808,000	+ 3.6	− 0.5
Venture Stores	116,500	+20.5	+ 9.6	750,900	+14.9	+ 5.2
Edison Bros.	103,600	+ 9.5	N/R	675,500	+ 9.8	N/R
Rose's	92,772	− 3.0	+ 2.6	611,617	− 9.0	− 2.5
Jamesway	49,600	− 3.1	− 2.0	386,700	+ 0.5	+ 2.0
Charming Shoppes	84,600	+23.0	+12.0	552,300	+16.0	+ 6.0
Ross	76,000	+ 7.0	− 2.0	476,000	+10.0	+ 1.0
Value City[3]	43,500	+ 8.1	+ 3.6	661,700	+12.8	+ 7.7
Dollar General	55,700	+26.5	+20.0	403,500	+26.2	±20.4
Best Buy[4]	86,000	+46.0	+15.0	435,000	+48.0	+16.0
Gottschalks	21,900	+ 3.6	− 2.2	142,300	+ 6.3	− 1.0

[1] fiscal year ends Dec. 31 [2] fiscal year ends Feb. 28 [3] fiscal year ends July 31 [4] fiscal year ends Mar. 31 [5] fiscal year ends Aug. 31 N/R = not reported N/C = no change

Source: Company reports

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